السعودية لتمويل المساكن
SAUDI HOME LOANS

# Saudi Home Loans Company Prospectus

A Saudi closed joint stock company pursuant to the Commercial Registration No. (1010241934) dated 22/12/1428H (corresponding to 01/01/2008G) and Minister of Commerce Resolution No. (319/Q) dated 1/12/1428H (corresponding to 11/12/2007G) and the Saudi Central Bank's license No. (14/A SH/201403), dated 27/04/1435H (corresponding to 27/02/2014G) and Ministry of Investment License No. (102030072425-01), dated 23/07/1430H (corresponding to 16/07/2009G).

Sale of thirty million (30,000,000) ordinary shares representing 30% of the capital of the Saudi Home Loans Company, through an initial public Offering, at an offering price of twenty (20) Saudi Riyals per share.

Offering Period (3) days from 24/08/1443H (corresponding to 27/03/2022G) to 26/08/1443H (corresponding to 29/03/2022G)

Saudi Home Loans Company ("**the Company**" or "**the Issuer**") is a Saudi closed joint stock company established under the Minister of Commerce Resolution No. (319/Q) dated 1/12/1428H (corresponding to 11/12/2007G) having Commercial Registration No. (1010241934) dated 22/12/1428H (corresponding to 01/01/2008G), Saudi Central Bank's license No. (14/A SH/201403) dated 27/04/1435H (corresponding to 27/02/2014G) and Ministry of Investment License No. (102030072425-01) dated 23/07/1430H (corresponding to 16/07/2009G). Its registered address is P.O. 27072, Al Murabba, King Abdulaziz Road, Riyadh 11417, Kingdom of Saudi Arabia. The current capital of the Company is (SR 1,000,000,000) one billion Saudi riyals divided into (100,000,000) one hundred million nominal shares of equal value of (SR 10) ten Saudi riyals per share, all of which are ordinary cash shares

On 01/12/1428H (corresponding to 11/12/2007G), the Company was established as a closed Saudi joint stock company with a capital of (SR 2,000,000,000) two billion Saudi riyals, divided into (200,000,000) two hundred million cash shares, at (SR 10) ten Saudi riyals per share. Since the Company's paid-up capital amounted to (SR 800,000,000) eight hundred million Saudi riyals, the value of the subscribed shares that remained unpaid amounted to (SR 1,200,000,000) one billion and two hundred million Saudi riyals. On 14/08/1438H (corresponding to 10/05/2017G), the Central Bank of Saudi Arabia, based on Article 25 of the Finance Companies Control Law, approved a request to amend the Company's capital by paying the remaining unpaid capital by transferring (SR 200,000,000) two hundred million Saudi riyals from the retained earnings account to the capital account. So, the share capital of the Company as on the date of this Prospectus becomes (SR 1,000,000,000) one billion Saudi riyals fully paid, and the unpaid shares of 1,000,000,000 riyals are cancelled.

The capital of the Company as on the date of this prospectus is (SR 1,000,000,000) one billion Saudi riyals, divided into one hundred million (100,000,000) ordinary shares at a nominal value of ten (SR 10) Saudi riyals per share.

The initial public offering of shares (the "**Offering**") consists of offering (30,000,000) thirty million ordinary shares ("**Offer Shares**", and each of which is an "**Offer Share**") at an offer price of twenty (20) Saudi Riyals per share (the "**Offering Price**") at a nominal value of (SR 10) ten Saudi riyals per share, fully paid in value. The Offer Shares will represent (30%) thirty percent of the Company's capital after the Offering process ends. The Company has one class of ordinary shares, and each share gives its holder the right to one vote. Each shareholder in the Company ("**Shareholder**") has the right to attend and vote at the meetings of the General Assembly of Shareholders ("**General Assembly**"), and no shareholder will enjoy any preferential voting rights. The Offer Shares shall be entitled to their share of any profits announced by the Company as of the date of this prospectus ("**Prospectus**") and the following fiscal years. (For more details, please see Section (7) ("**Dividends Policy**")).

The Offering shall be restricted to the following two groups of investors:

**Tranche (A) Participating Parties:** This tranche comprises investors eligible to participate in the book-building process as specified under the Instructions of Book-Building Process and Allocation Method in Initial Public Offerings ("**Book-Building Instructions**") issued by the Authority (collectively, the "**Participating Parties**" and each a "**Participating Party**"). (For further details, please refer to Section 1 ("**Terms and Definitions**")). The number of Offer Shares to be initially allocated to the Participating Entities actually participated in the Book-Building process is (30,000,000) thirty million ordinary shares representing 100% of the total Offer Shares. The final allocation will take place after the end of the individuals subscription period. In the event that there is sufficient demand by Individual Investors for the Offer Shares, the Bookrunner (defined in Section (1) "**Terms and Definitions**") has the right to reduce the number of Offer Shares allocated to Participating Entities to (27,000,000) twenty-seven million Ordinary Shares, representing 90% of the total Offer Shares.

**Tranche (B) Individual Investors:** This Tranche comprises Saudi Arabian nationals, including any Saudi female divorcee or widow with minor children from a marriage to a non-Saudi person who can subscribe for her own benefit or in the names of her minor children, provided that she proves that she is a divorcee or widow and the mother of her minor children, as well as any non-Saudi residents or GCC nationals with an investment account with an authorized person (the "**Individual Investors**" and each an "**Individual Investor**", and any such Individual Investor participating in the Offering together with the Participating Entities, the "**Subscribers**"). A subscription to the Offer Shares made by a person in the name of his divorced wife shall be deemed invalid and the applicant shall be subject to the sanctions prescribed by law. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted. A maximum of (3,000,000) three million Offer Shares representing ten (10%) of the total Offer Shares will be allocated to Individual Investors. In the event that the Individual Investors do not subscribe in full to the Offer Shares allocated to them, the Bookrunner may reduce the number of Offer Shares allocated to Individual Investors in proportion to the number of Offer Shares subscribed by them.

The Company's current shareholders (collectively, "**Current Shareholders**"), own all of the Company's shares prior to the Offering. The Offer Shares are being sold on equal basis by all of the Current Shareholders (collectively, "**Selling Shareholders**"). Upon completion of the Offering, the Current Shareholders will own seventy percent (70%) of the Shares and will consequently retain a controlling interest in the Company. The Offering proceeds will, after deducting the Offering expenses, (the "**Net Offering Proceeds**") be paid to the Current Shareholders on a pro-rata basis according to the number of Shares owned by each Selling Shareholder. The Company will not receive any part of the Offering Proceeds (for further details, see Section 8 (Use of Offering Proceeds)). The Offering is fully underwritten by the Underwriter (for further details, see Section 13 (Underwriting)). The Substantial Shareholders will be subject to a lock-up period during which they will be prohibited from selling their Shares for a period of six months ("**Lock-up Period**") from the starting date of trading the Company's Shares on the Exchange ("**Tadawul**" or "**the Exchange**").

The Company's Substantial Shareholders who own 5% or more of its shares are: Arab Bank (ownership percentage (40%) before the Offering), Dar Al-Arkan Real Estate Development Company (ownership percentage (15%) before the Offering) and Kingdom of Installment Trading Company (ownership percentage) (9%) before the Offering), Yousef bin Abdullah Al-Shelash (ownership percentage (8%) before the Offering), Hethloul bin Saleh Al-Hethloul (ownership percentage (6%) before the Offering), Tariq bin Mohammad Al Jarallah (ownership percentage (6%) before the Offering), Abdullatif bin Abdullah Al-Shalash (Ownership percentage (5%) before the Offering) and the International Finance Corporation (ownership percentage is (5%) before the Offering) (please refer to Section "**Substantial Shareholders, their shares and ownership percentages before and after the subscription**" in the "Summary of the Offering" Section of this Prospectus).

The Offering Period will commence on Sunday 24/08/1443H (corresponding to 27/03/2022G) and will remain open for a period of (3) days up to and including the subscription closing date at the end of Tuesday 26/08/1443H (corresponding to 29/03/2022G) ("**Offering Period**"). Subscription to the Offer Shares can be made by Individual Investors through any branch of the "**Receiving Agents**" whose names are listed on page (xi) during the Offering Period (for more information, see Section 17 "**Information Related to the Shares and Terms and Conditions of the Offering**" of this Prospectus). The Participating Entities can register their applications for the Offer Shares through the Lead Manager, during the book-building period, which takes place before the Shares are offered to the Individual Investors. Each Individual Investor who subscribes to the Offer Shares must apply for a minimum of ten (10) Offer Shares. The maximum number of Offer Shares that can be subscribed to by Individual Investors is (250,000) two hundred thousand Offer Shares. The minimum number of allocated Offer Shares will be ten (10) ten Offer Shares per Individual Investor, and the balance of the Offer Shares, if any, will be allocated on a pro rata basis based on the number of Offer Shares applied to by each Individual Investor. In the event that the number of Individual Investors exceeds (300,000) three hundred thousand Individual Investors, the Company will not guarantee the minimum allocation. The Offer Shares will be allocated in accordance with the proposals made by the Company and the Financial Advisor. Excess subscription monies, if any, will be refunded to the Individual Investors without any charge or withholding by the relevant Receiving Agent on Wednesday 05/09/1443H (corresponding to 06/04/2022G). Announcement of the final allotment will be made on Thursday 28/08/1443H (corresponding to 31/03/2022G) (for further details, see "**Key Dates and Subscription Procedures**" on page (xviii) and Section 17 (Information related to the Shares and Terms and Conditions of the Offering)).

Prior to the Offering, there has been no public market for the Shares in the Kingdom or elsewhere. The Company has filed an application for registration and offer of the Shares to the Authority, and an application to the Saudi Stock Exchange ("**the Exchange**" or "**Tadawul**") for listing of the Shares on Tadawul. All required documents were submitted to the relevant authorities, all requirements were met, and all approvals related to the Offering process were obtained, including this Prospectus. It is expected that trading in the Shares will commence on the Exchange after the final allocation of the Offer Shares and satisfaction of necessary conditions and procedures (for further details, see "**Key Dates and Subscription Procedures**" on page (xviii)). Following the listing of the Shares on the Exchange, Saudi nationals, non-Saudi nationals holding valid residency permits in the Kingdom, and companies, banks, and investment funds established in the Kingdom or in countries of the GCC countries as well as GCC nationals will be permitted to trade in the Shares after trading therein starts on the Exchange. Qualified Foreign Investors will be permitted to trade in the Shares pursuant to the CMA Rules for Qualified Foreign Financial Institutions Investment in Listed Securities, (defined in Section 1 "**Terms and Definitions**" of this Prospectus). Non-Saudi individuals living outside the Kingdom and institutions registered outside the Kingdom (hereinafter referred to collectively as "**Foreign Investors**" and individually as "**Foreign Investor**") will have the right to acquire an economic benefit in the Shares by entering into Swap Agreements with a Capital Market Institution ("**Authorized Persons**") to purchase Shares listed on the Exchange and to trade these Shares for the benefit of Foreign Investors. The Capital Market Institutions will remain as legal owners of the Shares subject to the Swap Agreements.

Investment in the Offer Shares involves certain risks and uncertainties. For a discussion of certain factors to be carefully considered before determining to subscribe to the Offer Shares (please see Section (Important Notice) on page (iii) and Section 2 ("**Risk Factors**") of this Prospectus).

Financial Advisor, Institutional Bookrunner, Underwriter and Lead Manager

الرياض المالية
riyad capital

Receiving Agents

بنك الرياض
riyad bank

مصرف الراجحي
Al Rajhi Bank

العربي
anb

This Prospectus includes information provided as part of the application for registration and offer of securities given in compliance with the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority ("**the Authority**" or "**CMA**") and the application for listing securities in compliance with the Listing Rules of the Saudi Stock Exchange. The directors, whose names appear on Pages (vi) and (vii), collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and the Exchange do not take any responsibility for the contents of this Prospectus, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

This Prospectus is dated 25/05/1443H (corresponding to 29/12/2021G).

This Prospectus is an unofficial English translation of the official Arabic Prospectus and is provided for information purpose only. The Arabic Prospectus published on the CMA's website (www.cma.org.sa) remains the only official, legally binding version and shall prevail in the event of any conflict between the two languages.Financial Advisor, Lead Manager, Bookrunner and Lead Underwriter

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# Important Notice

This Prospectus provides detailed information relating to the Company and the Offer Shares. When submitting a Subscription Application Form for the Offer Shares, Participating Parties and Individual Investors will be considered to be applying based on the information contained in this Prospectus, copies of which can be obtained by visiting the website of the Company (www.saudihomeloans.com), CMA (www.cma.org.sa), Tadawul (www.saudiexchange.sa), or the Financial Advisor (www.riyadcapital.com/ar).

The Company has appointed Riyad Capital as Financial Advisor in connection with the Offering (hereinafter the "**Financial Advisor**"), Lead Manager (hereinafter "**Lead Manager**"), Bookrunner (hereinafter "**Bookrunner**"), and Underwriter (hereinafter "**Underwriter**") in relation to the Offer Shares indicated in this Prospectus.

This Prospectus includes information that has been presented in accordance with "**the Rules on the Offer of Securities and Continuing Obligations issued by the CMA**". The Board Members, whose names appear on Pages (vi) and (vii), jointly and severally accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

Whilst the Company has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as at the date hereof, substantial portions of the information herein regarding the market and industry are derived from external sources. While neither the Company nor the Financial Advisor nor any of the Company's advisors, whose names appear on Pages (ix) and (x) of this Prospectus (collectively referred to as the "**Advisors**") has any reason to believe that any of the market and industry data is materially inaccurate, neither the Company nor any of the Advisors has independently verified such information. Accordingly, no representation or assurance is made with respect to the accuracy or completeness of any of this information.

The information contained in this Prospectus as at the date hereof is subject to change. In particular, the Company's financial condition and the value of the Offer Shares may be adversely affected by future developments such as inflation, interest rates, taxation or other economic and political factors and factors over which the Company has no control (for further details, see Section 2 ("**Risk Factors**")). Neither the delivery of this Prospectus nor any oral, written or printed information in relation to the Offer Shares is intended to be nor should be construed as or relied upon in any way as a promise, confirmation or representation as to future earnings, results or events.

The Prospectus may not to be regarded as a recommendation on the part of the Company, Board Members, te Receiving Agents, or the Advisors to subscribe to the Offer Shares. Information provided in this Prospectus is of a general nature and has been prepared without taking into account the individual investment objectives, financial situation or particular investment needs of those intending to invest in the Offer Shares. Prior to making an investment decision, each recipient of this Prospectus is responsible for obtaining professional advice from a CMA licensed financial advisor in relation to the Offering to consider the appropriateness of both the investment and the information herein regarding the recipient's individual objectives, financial situation and needs, including the merits and risks involved in investing in the Offer Shares. An investment in the Offer Shares may be appropriate for some investors but not others. Prospective investors should not rely on another party's decision on whether or not to invest as a basis for their own examination of the investment opportunity and their individual circumstances.

Subscribing for the Offer Shares shall be limited to two categories of investors as follows:

**Tranche A - Participating Parties:** Consisting of the parties entitled to participate in the book-building process in accordance with the Book-Building Instructions and Allocation of Shares issued by CMA including investment funds, companies, qualified foreign investors, and Gulf investors with legal persons. (For further details, see Section 1 ("**Terms and Definitions**"));

**Tranche B - Individual Investors:** Consisting of Saudi natural persons, including any divorced or widowed Saudi woman with minor children from a marriage to a non-Saudi, who is entitled to subscribe to the Offer Shares in their names on her own behalf, provided that she provides proof that she is divorced or widowed and the mother of her minor children. It also includes and any non-Saudi natural person residing or citizens of the GCC states who have a bank account with one of the Receiving Agents and has the right to open an investment account. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature is demonstrated to have occurred, then the law shall be enforced against the applicant. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted.

Distribution of this Prospectus and the sale of the Offer Shares in any country other than Saudi Arabia are expressly prohibited except for Qualified Foreign Financial Institutions and/or Foreign Investors by entering into swap agreements, and subject to the relevant applicable laws and instructions. Recipients of this Prospectus are required to inform themselves of any regulatory restrictions relevant to the Offering or the sale of Offer Shares and to observe all such restrictions.

## Market and Industry Data

The information related to the real estate finance sector in which the Company operates and contained in this Prospectus was provided by the market and sector research consultant "**Market and Sector Study Consultant**", which is the Arabian Market Vision Co. LTD (Foresight).

It should be noted that Arabian Market Vision Co. LTD is engaged in statistics and market information works and operates in the Middle East and has partnerships in consumer goods, banking and financial services, telecommunications, real estate, retail trade, Government sector and others. The Company believes that the information and data obtained or extracted from the market study report prepared by the market and sector study consultant are reliable in themselves. However, neither the Company nor its members of its Board of Directors, the Selling Shareholders or its advisors have independently verified such information and data and therefore they cannot provide any guarantee as to its accuracy, correctness or completeness.

Neither Market Consultant, nor any of its subsidiaries, associates, partners, shareholders, board members, managers or relatives thereof, own any shares or interest of any kind in the Company. As at the date of this Prospectus, the Market Consultant has given and not withdrawn its written consent for the use of its name and logo and the market information and data supplied thereby to the Company in the manner and form set out in this Prospectus.

## Financial and Statistical Information

The audited financial statements of the Company have been prepared for the fiscal year ending on December 31, 2018, and the accompanying notes that are included in other parts of this Prospectus have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as amended by the Saudi Central Bank (SAMA) and are audited by the Company's Auditor KPMG for Professional Consulting.

The Company's audited financial statements for the fiscal years ending on December 31, 2019 and 2020 and the reviewed statements for the six-month period ending on June 30, 2021 and their accompanying notes that are included in other parts of this Prospectus have been prepared in accordance with the approved International Financial Reporting Standards ("**IFRS**") In the Kingdom of Saudi Arabia and other publications approved by the Saudi Organization for Auditors and Accountants ("**SOCPA**") and are reviewed by the Company's Auditor KPMG for Professional Consulting.

## Forecasts and Forward-looking Statements

Forecasts set forth in this Prospectus have been prepared on the basis of assumptions based on the Company's market experience as well as declared and publicly available market information. The Company's future operating conditions may differ from the assumptions used, and no affirmation, representation, or warranty is made with respect to the accuracy or completeness of any of these forecasts. The Company confirms that the statements contained in this Prospectus were made based on the necessary professional care.

Certain statements in this Prospectus constitute forward-looking statements. Such statements can generally be identified by their use of forward-looking words such as "**intends**", "**plans**", "**estimates**", "**believes**", "**expects**", "**anticipates**", "**may**", "**will**", "**should**", "**expected**", "**would be**" or the negative thereof or other variations of such terms or comparable terminology. These forward-looking statements reflect the current views of the Company and its management with respect to future events but are not a guarantee of future performance. Many factors could cause the actual results, performance, or achievements of the Company to be significantly different from any future results, performance or achievements that may be expressed or implied. Some of the risks and factors that could have such an effect are described in more detail.in other sections thereof. (For further details, see Section 2 "**Risk Factors**" of this Prospectus). Should any of these risks or uncertainties materialize or any underlying assumptions prove to be incorrect or inaccurate, the Company's actual results may vary materially from those described in this Prospectus.

Subject to the requirements of the Rules on the Offer of Securities and Continuing Obligations; the Company must submit a supplementary Prospectus to the CMA if, at any time after the publication of this Prospectus and before completion of the Offering, the Company becomes aware that: (1) there has been a significant change in any material information contained in this Prospectus or any document required by the Rules on the Offer of Securities and Continuing Obligations; or (2) the occurrence of additional significant matters which would have been required to be included in this Prospectus. Except in the circumstances mentioned above, the Company does not intend to update or otherwise revise any industry or market information, forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise relating to the Company, industry or risk factors. As a result of the foregoing and other risks, assumptions and uncertainties, expectations of future events and conditions set out in this Prospectus may not occur as expected by the Company or may not occur at all. Accordingly, potential investors should examine all future statements in the light of these interpretations and not rely primarily on these forward-looking statements.

## Terms and Definitions

For an explanation of certain defined terms and abbreviations used in this Prospectus, see Section 1 ("**Terms and Definitions**").

## Certain Provisions

Some numbers and ratios in this Prospectus have been rounded off by algebra to the nearest whole number, so the numbers shown for the same category presented in different tables may differ slightly, and the total numbers in some tables may not be the arithmetic sum of the numbers that precede them.

# Company's Directory

## Company's Board of Directors

Table 1: The Company's Board of Directors:

| Name | Position | Nationality | Membership Status | Direct Ownership (%) | | Indirect Ownership (%) | | Date of Appointment* |
|---|---|---|---|---|---|---|---|---|
| | | | | Before Offering | After Offering | Before Offering | After Offering | |
| Mr. Yousef Abdullah Al Shelash | Chairman of Board of Directors | Saudi | Non-Independent Non-executive | 8.00 | 5.60 | 0.59 | 0.42 | 28/11/2019G |
| Mr. Obaid bin Abdullah Al-Rasheed | Deputy Chairman of the Board | Saudi | Non-Independent Non-executive | - | - | - | - | 28/11/2019G |
| Mr. Othman bin Khairi Bader | Member of the Board of Directors | Saudi | Non - Independent Non-executive | - | - | - | - | 29/03/2021G |
| Mr. Ayham bin Mohammad Al Yousef | Member of the Board of Directors | Saudi | Independent Non-executive | - | - | - | - | 28/11/2019G |
| Mr. Abdullatif bin Abdullah Al Shalash | Member of the Board of Directors | Saudi | Non - Independent Non-executive | 5.00 | 3.50 | - | - | 28/11/2019G |
| Mr. Kamal Ibn Amin Khader | Member of the Board of Directors | Saudi | Non - Independent Non-executive | - | - | - | - | 28/11/2019G |
| Mr. Ziad Naim Al Shaar | Member of the Board of Directors | Lebanese | Non - Independent Non-executive | - | - | - | - | 28/11/2019G |
| Dr. Ahmed bin Saleh Al Dehailan | Member of the Board of Directors | Saudi | Non - Independent Non-executive | - | - | - | - | 28/11/2019G |
| Mr. Faris Ibrahim Rashid Al-Rashid Al-Humaid | Member of the Board of Directors | Saudi | Independent Non-executive | - | - | - | - | 28/11/2019G |

| Name | Position | Nationality | Membership Status | Direct Ownership (%) | | Indirect Ownership (%) | | Date of Appointment* |
|---|---|---|---|---|---|---|---|---|
| | | | | Before Offering | After Offering | Before Offering | After Offering | |
| Mr. Saud Abdulaziz Al Guasiyer | Member of the Board of Directors | Saudi | Independent Non-executive | - | - | - | - | 25/11/2021G |
| Mr. Ahmed bin Abdullah Al Sheikh | Member of the Board of Directors | Saudi | Independent Non-executive | - | - | - | - | 25/11/2021G |

Source: The Company

* The dates mentioned in this table are the dates of the beginning of the appointment of the members of the Board of Directors for the current term of the Board. The biographies of the members of the Board indicate the date of their appointment to the Board or any other position (for more information, please see Section No. 5-3-4 (“**Biographies of Board Members and Board Secretary**” of this Prospectus))

# Company Address, Representatives, and Board Secretary

## Company Address

**Saudi Home Loans Company**
Al Murabba, King Abdulaziz Road
P.O. Box. 27072
Riyadh 11417
Kingdom of Saudi Arabia
Tel: +966 800 1221 228
Fax: +966 (11) 789 1029
Website: www.saudihomeloans.com
E-mail: Ask@saudihomeloans.com

## Company's Representatives

**Bandar Saeed Abdullah Al-Ghamdi**
Chief Executive Officer
Saudi Home Loans Company
Al Murabba, King Abdulaziz Road
P.O. Box. 27072
Riyadh 11417
Kingdom of Saudi Arabia
Tel: +966 (11) 874 7687
Fax: +966 (11) 789 1029
Website: www.saudihomeloans.com
E-mail: b.alghamdi@saudihomeloans.com

**Ziad Naim Ammar Al Shaar**
Board Member
Saudi Home Loans Company
Al Murabba, King Abdulaziz Road
P.O. Box. 10299
Riyadh 11433
Kingdom of Saudi Arabia
Tel: +966 (11) 874 7687
Fax: +966 (11) 789 1029
Website: www.saudihomeloans.com
E-mail: ziad.elchaar@saudihomeloans.com

## Secretary of the Board of Directors

**Abdulrahman Muhammad Al Quayyid**
Saudi Home Loans Company
Al Murabba, King Abdulaziz Road
P.O. Box. 27072
Riyadh 11417
Kingdom of Saudi Arabia
Tel: +966 (11) 874 7900
Fax: +966 (11) 789 1029
Website: www.saudihomeloans.com
E-mail: a.alquayyid @saudihomeloans.com

## Stock Exchange

**Saudi Tadawul Group (SaudiExcchange)**
King Fahd Road - Olaya 6897
Unit No. 15,
Riyadh 12211-3388
Kingdom of Saudi Arabia
Tel: +966 92000 1919
Fax: +966 (11) 218 9133
Website: www.saudiexchange.sa
E-mail: csc@saudiexchange.sa

## Advisors

| Financial Adviser, Lead Manager, Bookrunner and Underwriter |
|---|
| **Riyadh Capital Company**<br>Granada Business Park 2414 - Al Shuhada District, Unit No. 69<br>7279 Riyadh 13241<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 4865649<br>Fax: +966 (11) 4865908<br>Website: www.riyadcapital.com<br>E-Email: Projecthome@riyadcapital.com |

| Legal Advisor |
|---|
| **Mohammad Ahmed Al Dhabaan Law Firm and Legal Consultation**<br>Orouba Road, Offices No. 10-11 - Office Homes Complex<br>P.O. Box 245555<br>Riyadh 11312<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 484 4448<br>Fax: +966 (11) 281 6611<br>Website: www.aldhabaan-es.com<br>E-mail: aldhabaan@aldhabaan-es.com |

| Financial Due Care Advisor |
|---|
| **PricewaterhouseCoopers - Certified Public Accountants**<br>Kingdom Tower<br>P.O. Box 8282,<br>Riyadh, 11482,<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 2110400<br>Fax: +966 (11) 2110401<br>Website: www.pwc.com/middle-east<br>Email: mer_project_home@pwc.com |

| Market Consultant |
|---|
| **Arabian Market Vision Co. Ltd - 4SiGHT,**<br>Office No. 3 and 4, First Floor, Building No. 10, Al Sircon Buildings<br>Musa Bin Al Nuseer Street, Al Sulaymaniyah District,<br>P.O. Box: 12241<br>Riyadh 6780,<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 4507622 Ext: 121<br>Fax: +966 (11) 4082622<br>Website: www.4sight-global.com<br>Email: nisar@4sight-global.com |

| Auditor | |
|---|---|
| **KPMG for Professional Consulting**<br>KPMG Tower, Riyadh Front, Airport Road, Riyadh<br>P.O. Box. 92876<br>Riyadh 11663<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 874 8500<br>Fax: +966 (11) 874 8600<br>Website: www.kpmg.com/sa<br>E-mail: marketingsa@kpmg.com | |

Note: Up to the date of this Prospectus, all the above-mentioned Advisors and Independent Auditors have given and have not withdrawn their written consent for the publication of the names and logos attributed to each of them in the form and content appearing herein. Moreover, they do not themselves, or any of their employees or relatives, have any shareholding or interest of any kind in the Company as at the date of this Prospectus.

| Receiving Agents |
|---|
| Riyad Bank<br>Shuhada District<br>P.O. Box 22622<br>Riyadh 11614<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 4013030<br>Fax: +966 (11) 4865909<br>Website: www.riyadbank.com<br>Email: customercare@riyadbank.com |
| Al Rajhi Bank<br>Olaya Street<br>P.O. Box 28<br>Riyadh 11411<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 6098888<br>Fax: +966 (11) 6098888<br>Website: www.alrajhibank.com<br>Email: contactcenter1@alrajhibank.com |
| Arab National Bank<br>King Faisal Street<br>P.O Box 56921<br>Riyadh 11564<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 4029000<br>Fax: +966 (11) 4027747<br>Website: www.anb.com.sa<br>Email: info@anb.com.sa |

# Offering Summary

This summary of the IPO aims to give a brief overview of the detailed information on the Offering contained in this Prospectus. As such, it does not contain all information that may be important to prospective investors. Accordingly, this summary must be read as an introduction to this Prospectus, and prospective investors should read this entire Prospectus in full before taking a decision to invest in the Offer Shares.

In particular, it is important to carefully consider Page (iii) ("**Important Notice**") and Section 2 ("**Risk Factors**") prior to making any decision to invest in the subject Offer Shares.

| Offering Summary | |
|---|---|
| Company Name, Description and Establishment Information | Saudi Home Loans Company ("**the Company**" or "**the Issuer**) is a Saudi closed joint stock company established under the Minister of Commerce Resolution No. (319/Q) dated 1/12/1428H (corresponding to 11/12/2007G) having Commercial Registration No. (1010241934) dated 22/12/1428H (corresponding to 01/01/2008G) and the Saudi Central Bank's license No. (14/A SH/201403) dated 27/04/1435H (corresponding to 27/02/2014G) and Ministry of Investment License No. (102030072425-01) dated 23/07/1430H (corresponding to 16/07/2009G). The current Commercial Registration expires on 22/12/1444H (corresponding to 10/02/2023G) Its registered address is P.O. 27072, Al Murabba, King Abdulaziz Road, Riyadh 11417, Kingdom of Saudi Arabia.<br><br>On 01/12/1428H (corresponding to 12/11/2007G), the Company was established as a closed Saudi joint stock company with a capital of (SR 2,000,000,000) two billion Saudi riyals, divided into (200,000,000) two hundred million cash shares, at (SR 10) ten Saudi riyals per share. Since the Company's paid-up capital amounted to (SR 800,000,000) eight hundred million Saudi riyals, the value of the subscribed shares remained unpaid at an amount of (SR 1,200,000,000) one billion and two hundred million Saudi riyals. On 14/08/1438H (corresponding to 10/05/2017G), the Central Bank of Saudi Arabia approved, based on Article 25 of the Finance Companies Control Law, a request to amend the Company's capital by paying the remaining unpaid capital by transferring (SR 200,000,000) two hundred million Saudi riyals from the retained earnings account to the capital account. So, the share capital of the Company as on the date of this Prospectus becomes (SR 1,000,000,000) one billion Saudi riyals fully paid, and the unpaid shares of 1,000,000,000 riyals are cancelled. |
| Company's Activities | The main activity of the Company is to engage in real estate finance activity for individuals in accordance with the Companies Law, Finance Companies Control Law its Implementing Regulations, as well as related regulations, and rules and instructions issued by the competent authorities. The Company carries out and implements the following purposes:<br><br>• Financing and purchasing homes, residential lands, and apartments in the Kingdom of Saudi Arabia<br>• Financing real estate that is developed by all companies working in the field of real estate development<br>• Financing the establishment of commercial and industrial projects<br>• Securing and managing the transferred assets of the owners and third parties as a security, and it is also entitled to sell and buy real estate for the financing purposes for which the Company was established, with the exception of Makkah and Madinah.<br><br>The Company conducts its activities in accordance with the applicable regulations after obtaining the necessary licenses from the competent authorities, if any. |

## Offering Summary

| | |
|---|---|
| Substantial Shareholders | Table 2: Substantial Shareholders and their Shareholding Percentages in the Company Pre- and Post-Offering: (see table below) |

| Shareholders | Before Offering | | | After Offering | | |
|---|---|---|---|---|---|---|
| | No. of Shares | Nominal Value (SR) | Percentage[1] | No. of Shares | Nominal Value (SR) | Percentage[1] |
| Arab National Bank | 40,000,000 | 400,000,000 | 40% | 28,000,000 | 280,000,000 | 28% |
| Dar Al Arkan Real Estate Development Company | 15,000,000 | 150,000,000 | 15% | 10,500,000 | 105,000,000 | 10.50% |
| Kingdom of Installment Trading Company | 9,000,000 | 90,000,000 | 9% | 6,300,000 | 63,000,000 | 6.30% |
| Yousef bin Abdullah Al Shelash | 8,000,000 | 80,000,000 | 8% | 5,600,000 | 56,000,000 | 5.60% |
| Hethloul bin Saleh Al-Hethloul | 6,000,000 | 60,000,000 | 6% | 4,200,000 | 42,000,000 | 4.20% |
| Tariq bin Mohammad Al Jarallah | 6,000,000 | 60,000,000 | 6% | 4,200,000 | 42,000,000 | 4.20% |
| International Finance Corporation | 5,000,000 | 50,000,000 | 5% | 3,500,000 | 35,000,000 | 3.50% |
| Abdullatif bin Abdullah Al Shalash | 5,000,000 | 50,000,000 | 5% | 3,500,000 | 35,000,000 | 3.50% |
| **Total** | **94,000,000** | **940,000,000** | **94%** | **65,800,000** | **658,000,000** | **65.80%** |

Source: The Company

1. The indicated ownership percentage is approximate

| | |
|---|---|
| The Company's Capital before the Offering | One billion Saudi riyals (SAR 1,000,000,000) fully paid, and it will remain so after the Offering. |
| Total No. of the Company Shares before the Offering | One hundred million (SAR 100,000,000) ordinary shares, fully paid in value. |
| Nominal Value Per Share | Ten Saudi riyals (SAR 10) per share. |

| Offering Summary | |
|---|---|
| Offering | Thirty million (30,000,000) ordinary shares with a fully paid nominal value of ten Saudi riyals (SAR 10) per share, representing thirty percent (30%) of the Company's share capital, are offered at a price of twenty (20)Saudi Riyals per share. |
| Total No. of Offer Shares | Thirty million (30,000,000) fully paid ordinary shares. |
| Offer Shares as a Percentage of Company Capital | The Offer Shares represent 30% of the Company's share capital. |
| Offer Price | Twenty (20) Saudi Riyals per share. |
| Total Offering Value | Six hundred million (600,000,000) Saudi Riyals. |
| Use of Offering Proceeds | The net Offering proceeds of five hundred and eighty two million and eight hundred thousand (582,800,000) Saudi riyals, after deducting the full Offering expenses estimated at seventeen million two hundred thousand (17,200,000) Saudi riyals will be distributed to the Selling Shareholders in proportion to their Offer Shares. The Company will not receive any portion of the Offering proceeds. (For more information, see Section 8 ("**Use of Offering Proceeds**")). |
| Total number of Underwritten Offer Shares | Thirty million (30,000,000) fully paid ordinary shares. |
| Total Amount to be Underwritten | Six hundred million (600,000,000) Saudi Riyals. |
| Categories of Target Investors | Subscribing for the Offer Shares shall be limited to two categories of investors as follows:<br><br>**Tranche A - Participating Parties:** Consisting of the parties entitled to participate in the book-building process in accordance with the Book-Building Instructions and Allocation of Shares issued by CMA including investment funds, companies, qualified foreign investors, and Gulf investors with legal persons. (For further details, see Section 1 ("**Terms and Definitions**")).<br><br>**Tranche B - Individual Investors:** Consisting of Saudi natural persons, including any divorced or widowed Saudi woman with minor children from a marriage to a non-Saudi, who is entitled to subscribe to the Offer Shares in their names on her own behalf, provided that she provides proof that she is divorced or widowed and the mother of her minor children. It also includes and any non-Saudi natural person residing or citizens of the GCC states who have a bank account with one of the Receiving Agents and has the right to open an investment account. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature is demonstrated to have occurred, then the law shall be enforced against the applicant. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted. |
| Total Offer Shares Available for Each Category of Targeted Investors | |
| No. of Shares Offered to Participating Parties | Thirty million (30,000,000) ordinary shares, representing 100% of the total Offer Shares. Note that if there is sufficient demand by Individual Investors, and the participating Entities subscribe to the full Offer Shares allocated to them, the Bookrunner shall be entitled to reduce the number of shares allocated to Participating Parties to twenty-seven million (27,000,000) ordinary shares, representing 90% of the Offer Shares. |
| No. of Shares Offered to Individual Investors | A maximum of three million (3,000,000) shares, representing 10% of the total Offer Shares. |

| Offering Summary | |
|---|---|
| Subscription Method for Each Category of Targeted Investors | |
| Subscription Method for Participating Parties | Participating Parties, as defined in Section 1 ("**Terms and Definitions**") are entitled to apply for participation in the Book-building process by filling out the Subscription Application Forms, which will be provided to them by the Bookrunner. Following the provisional allocation, the Bookrunner will provide Subscription Forms to Participating Parties, which shall fill out such forms in accordance with the instructions set forth in Section 17 ("**Information Related to the Shares and Terms and Conditions of the Offering**"). |
| Subscription Methods for Individual Investors | Subscription Application Forms will be made available to Individual Investors during the Offering Period at the Lead Manager and branches of the Receiving Agents. Subscription Application Forms for Individual Investors must be filled out according to the instructions set forth in Section 17 ("**Information Related to the Shares and Terms and Conditions of the Offering**"). Individual Investors who have already subscribed in previous IPOs may subscribe through the Internet, telephone banking or ATMs at any of the Receiving Agents that offer any of these services, provided that: (a) the investor has a bank account with a Receiving Agent that offers such services; and (b) there have been no changes to the Individual Investor's personal information since the last participated in an IPO. |
| Minimum No. of Offer Shares for Each Category of Targeted Investors | |
| Minimum No. of Offer Shares to be Applied for by Participating Parties | One hundred thousand (100,000) shares. |
| Minimum Subscription for Individual Investors | Ten (10) shares. |
| Minimum Subscription Amount for Each Category of Targeted Investors | |
| Minimum Subscription Amount for Participating Parties | Two million (2,000,000) Saudi Riyals. |
| Minimum Subscription Amount for Individual Investors | Two hundred (200) Saudi Riyals. |
| Maximum No. of Offer Shares for Each Category of Targeted Investors | |
| Maximum No. of Offer Shares for Participating Parties | Four million nine hundred and ninety-nine thousand nine hundred and ninety-nine (4,999,999) Offer Shares, and for Public Funds only, not to exceed the maximum limit for each Participating Public Fund which is determined in accordance with the Book-Building Instructions. |
| Maximum No. of Offer Shares for Individual Investors | Two hundred and fifty thousand (250,000) Offer Shares. |
| Maximum Subscription Amount for Each Category of Targeted Investors | |
| Maximum Subscription Amount for Participating Parties | Ninety-nine million nine hundred and ninety-nine thousand nine hundred and eighty (99,999,980) Saudi Riyals. |

| Offering Summary | |
|---|---|
| Maximum Subscription Amount for Individual Investors | Five million (5,000,000) Saudi Riyals. |
| Allocation method of Offer Shares and Refund of surplus monies for Each Category of Targeted Investors | |
| Allocation of Offer Shares to Participating Parties | The final allocation of the Offer Shares to the Participating Entities will be made through the Bookrunner after completing the Individuals subscription process as deemed appropriate by the Financial Advisor in coordination with the Issuer. The total number of the Offer Shares that will be initially allocated to the participating entities is (30,000,000) thirty million shares representing (100%) of the total number of the Offer Shares. In the event that there is sufficient demand by Individual subscribers to subscribe to the Offer Shares, the Bookrunner is entitled to reduce the number of the Offer Shares allocated to the participating parties to (27,000,000) twenty-seven million shares as a minimum, representing (90%) of the total Offer Shares after completing the Individual subscription process. |
| Allocation of Offer Shares to Individual Investors | Allocation of the Offer Shares to Individual subscribers is anticipated to be completed no later than 28/08/1443H (corresponding to 31/03/2022G), bearing in mind that the minimum allocation for each Individual subscriber is 10 shares and the maximum is (250,000) two hundred and fifty thousand shares. The remaining Offer Shares, if any, will be allocated on a pro-rata basis based on the ratio of Offer Shares requested by each Individual subscriber to the total shares to be subscribed to. In the event that the number of Individual subscribers exceeds (300,000) three hundred thousand, the Company does not guarantee the minimum allocation of ten (10) shares for each Individual subscriber, in which case the allocation will be made at the discretion of the Company and the Financial Advisor. |
| Refund of Excess Subscription Monies | The surplus subscription monies (if any) shall be returned to the subscribers without deduction of any commissions or deductions by the Bookrunner Receiving Agents (as the case may be). The final allotment process will be announced on 28/08/1443H (corresponding to 31/03/2022G) and the subscription surplus will be received no later than 05/09/1443H (corresponding to 06/04/2022G) (for more details, please see "**Key Dates and Subscription Procedures**" on page (xviii) and Section (17) ("**Information Related to the Shares and Terms and Conditions of the Offering**")). |
| Offering Period for Individuals | The Offering Period begins on 24/08/1443H (corresponding to 27/03/2022G) and lasts for (3) days (for more information, please see "**Key Dates and Subscription Procedures**" on page (xviii). |
| Dividends Eligibility | The Offer Shares will be entitled to receive dividends declared by the Company as from the Offering date. (See Section (7) "**Dividends Policy**" in this Prospectus). |
| Voting Rights | All Company shares are ordinary of one class, and no share gives its holder preferential rights. Each Offer Share gives its holder the right to for one vote and to attend the Shareholders Assembly and vote in its meetings. A shareholder may authorize any other shareholder, who is not a member of the Company's Board of Directors or its employees; to represent him in attending the meetings of the General Assembly. (For more information, see Section 12-15 ("**Summary of the Articles of Association**") of this Prospectus). |
| Restrictions on the Shares (Lock-Up Period) | The Substantial Shareholders will be subject to a lock-up period during which they will be prohibited from disposing of any of their shares for a period of six (6) months from the date trading begins on the Exchange. Substantial Shareholders may not dispose of any of their shares during the Lock-up Period. After the Lock-up period expires, Substantial Shareholders may dispose of their shares without prior approval of the Authority. |
| Listing and Trading of Shares | Prior to the Offering, there has been no public trading or listing of the shares in any market in the Kingdom of Saudi Arabia or elsewhere. The Company has submitted an application to CMA to register and offer the shares in accordance with the Rules on the Offer of Securities and Continuing Obligations. The Company has also submitted a listing application to the Exchange (Tadawul) in accordance with the Listing Rules. All relevant approvals pertaining to the Offering have been obtained. After submitting all supporting documents required by the CMA. Trading in the Offer Shares is expected to commence on the Exchange soon after the final allocation of the Offer Shares (for more information, please see "**Key Dates and Subscription Procedures**" on page (xviii). |

| Offering Summary | |
|---|---|
| Risk Factors | Investing in the Offer Shares involves certain risks. These risks can be generally categorized into: (a) risks relating to the Company's business; (b) risks relating to the market, industry and regulatory environment; and (c) risks relating to the Offer Shares. These risks are described in Section 2 ("**Risk Factors**") of this Prospectus which should be considered carefully prior to making a decision to invest in the Offer Shares. |
| Offering Expenses | The offering expenses represent the expenses and costs related to the Offering, which are estimated at about seventeen million two hundred thousand (17,200,000) Saudi riyals. Such Offering expenses include the fees of the Financial Advisor, Lead Manager, Bookrunner, Underwriter, Legal Advisors, Financial Due Diligence Advisor, Market Consultant, Receiving Agents, marketing, printing and distribution costs, and other expenses related to the Offering. |
| Underwriter | Granada Business Park 2414 - Al Shuhada District, Unit No. 69<br>7279 Riyadh 13241<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 48656499<br>Fax: +966 (11) 4865908<br>Website: www.riyadcapital.com<br>Email: project.home@riyadcapital.com |

Page (iii) ("**Important Notice**") and Section 2 ("**Risk Factors**") should be read thoroughly prior to making any decision to invest in the Offer Shares.

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# Key Dates and Subscription Procedures

Table 3: Projected Offering Timetable:

| Procedure | Date |
|---|---|
| Processing Participating Parties' Applications and Book-Building | Starting from Tuesday 12/08/1443H (corresponding to 15/03/2022G) and continuing until the end of Monday 18/08/1443H (corresponding to 21/03/2022G) |
| Deadline for Participating Parties to Submit Application Forms Based on the Provisionally Allocated Offer Shares | On Sunday 24/08/1443H (corresponding to 27/03/2022G) |
| Individual Investors' Subscription Period | A period of (3) days, commencing on Sunday 24/08/1443H (corresponding to 27/03/2022G) and ending on Tuesday 26/08/1443H (corresponding to 29/03/2022G). |
| Deadline for Participating Parties to Pay Subscription Monies Based on the Provisionally Allocated Offer Shares | On Wednesday 27/08/1443H (corresponding to 30/03/2022G) |
| Deadline for Individual Investors to Submit Application Forms and Pay Subscription Monies | On Tuesday 26/08/1443H (corresponding to 29/03/2022G) |
| Announcement of Final Offer Shares Allotment | On Thursday 28/08/1443H (corresponding to 31/03/2022G) |
| Refund of Excess Subscription Monies (if any) | On Wednesday 05/09/1443H (corresponding to 06/04/2022G) |
| Expected Start Date of Trading on the Exchange | Trading in the Offer Shares is expected to commence after all relevant legal requirements and procedures have been completed. An announcement of the commencement of trading of the shares will be made on the local newspapers and on Tadawul's website: (www.saudiexchange.sa) |

Note: The timetable and all dates indicated therein are approximate. Actual dates will be announced in the local newspapers, the Tadawul's website (www.saudiexchange.sa),
Financial Advisor's website (www.riyadcapital.com/ar) and the Company's website (www.saudihomeloans.com).

# How to Apply for the Offering

## Subscription for the Offer Shares is restricted to the following categories of Investors:

- **Tranche A - Participating Parties:** This tranche includes all parties entitled to participate in the book-building process as specified under the Book-Building Instructions (for further details, see Section 1 ("**Terms and Definitions**") and Section 17 ("**Information Related to the Shares and Terms and Conditions of the Offering**")).

- **Tranche B - Individual Investors:** Consisting of Saudi natural persons, including any divorced or widowed Saudi woman with minor children from a marriage to a non-Saudi, who is entitled to subscribe to the Offer Shares in their names on her own behalf, provided that she provides proof that she is divorced or widowed and the mother of her minor children. It also includes and any non-Saudi natural person residing or citizens of the GCC states who have a bank account with one of the Receiving Agents and has the right to open an investment account. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature is demonstrated to have occurred, then the law shall be enforced against the applicant. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted.

### Participating Parties:

Participating Parties can obtain Subscription Application Forms from the Bookrunner during the Book-building process period and can obtain Subscription Application Forms following the provisional allocation. The Bookrunner shall, with the approval of the CMA, offer the Offer Shares to Participating Parties only during the book-building period. Subscriptions by Participating Parties shall commence during the Offering Period, which includes Individual Investors, in accordance with the terms and conditions detailed in the Subscription Application Forms. A signed Subscription Application Form must be submitted to the Bookrunner. This form represents a legally binding agreement between the Selling Shareholders and the Participating Party submitting the form.

### Individual Investors:

Individual Subscription Application Forms will be provided during the Offering period of Individual subscribers at the websites of the Receiving Agents that provide this service. Individual Subscribers can subscribe through the Internet, phone banking, and automated teller machines (ATM) of the Receiving Agents that provide one or all of these services, provided:

- The Individual Investor has a bank account with a Receiving Agent which offers such services; and
- There have been no changes to the Individual Investor's personal information (removal or addition of a family member) since his last participated in an IPO.

Subscription Application Forms must be completed in accordance with the instructions set out in Section 17 ("**Information Related to the Shares and Terms and Conditions of the Offering**") of this Prospectus. An applicant must complete all relevant sections of the Subscription Application Form. The Company reserves the right to reject any Subscription Application Form, in whole or in part, if any of the subscription terms and conditions are not met. In the event that the Individual Subscription Application Form is submitted twice, the second submission will be considered null and only the first submission will be taken into account. The Subscription Application Form may not be amended or withdrawn once submitted. Furthermore, the Subscription Application Form shall, upon submission, be a binding agreement between the relevant Investor and the Selling Shareholders (for further details, see Section 17 ("**Information Related to the Shares and Terms and Conditions of the Offering**")).

Excess subscription monies, if any, will be refunded to the Investor's main account at the Receiving Agent from which the subscription value was debited, without any commissions or withholding by the Lead Manager or Receiving Agents. Excess subscription monies shall not be refunded in cash or to third-party accounts.

For more information on the subscription of Individual Investors and the Participating Parties, see Section 17 ("**Information Related to the Shares and Terms and Conditions of the Offering**") of this Prospectus.

# Summary of Key Information

This summary of key information is intended to provide an overview of the information contained in this Prospectus. This Prospectus does not contain all information that may be important to prospective investors. Accordingly, this summary must be read as an introduction to this Prospectus. Prospective investors should read this entire Prospectus in full, and any decision to invest in the Offer Shares should be based on a consideration of this Prospectus as a whole. Any decision related to investing in the Offered Shares by prospective investors should be based on all information mentioned in this Prospectus as a whole, especially the "**Important Notice**" on page (iii) and Section 2 "**Risk Factors**" prior to making an investment decision with respect to the Offer Shares. Terms and Definitions contained in this Prospectus shall have the same meanings assigned to them in Section 1 ("**Terms and Definitions**") of this Prospectus and elsewhere.

# Company Overview

## History

Saudi Home Loans Company is a Saudi closed joint stock company established in Riyadh, Saudi Arabia, under Commercial Registration No. (1010241934) dated 22/12/1428H (corresponding to 01/01/2008) by virtue of Minister of Commerce and Industry Resolution No. 319/Q dated 01/12/1428H (corresponding to 11/12/2007). The Company is also licensed by the Saudi Central Bank for real estate finance activities in Saudi Arabia under No. (14/A SH/201403) dated 27/04/1435H (corresponding to 27/02/2014G) and the license of the Ministry of Investment No. (102030072425-01) dated 23/07/1430H (corresponding to 16/07/2009G). Its registered address is PO. Box 27072, King Abdulaziz Road, Wazarat District, Riyadh 11417, Saudi Arabia. The Company's current capital is (SAR 1,000,000,000) one billion Saudi Riyals divided into (100,000,000) one hundred million shares with a fully paid nominal value of (10) Saudi Riyals per share, and all are ordinary cash shares.

The Company is one of the leading Islamic real estate finance companies in the Saudi market, providing real estate finance solutions to the retail sector under the supervision of a Shariah control body of experts in the field of Islamic finance to ensure the legitimacy and compliance with Islamic law.

Since its establishment, Saudi Home Loans Company has sought to occupy a leading position among the leading companies in the field of Islamic finance directed to meet the basic housing needs of customers in the Saudi market and help them find solutions to finance their homes while adhering to the provisions of Islamic Sharia. The presence of a Sharia supervisory board ensures that all products and services comply with the provisions and rules of Islamic law. During this period and since its inception, Saudi Home Loans Company was able to make a quantum leap in terms of achievements and its interest in customer satisfaction and enriching its experience as a supreme goal it seeks to achieve. Since the beginning, the Company has endeavored to provide its services with professionalism and high quality, by relentlessly striving to serve the citizen and expatriates for the benefit of society and the individual through its various products.

# Main Activities

The main activity of the Company is to engage in real estate finance activity for individuals in accordance with the Companies Law, Finance Companies Control Law its its Implementing Regulations, as well as related regulations, and rules and instructions issued by the competent authorities. . The Company carries out and implements the following purposes:

- Financing and purchasing homes, residential lands, and apartments in the Kingdom of Saudi Arabia
- Financing real estate that is developed by all companies working in the field of real estate development
- Financing the establishment of commercial and industrial projects
- Securing and managing the transferred assets of the owners and third parties as a security, and it is also entitled to sell and buy real estate for the financing purposes for which the Company was established, with the exception of Makkah and Madinah.

The Company conducts its activities in accordance with the applicable regulations after obtaining the necessary licenses from the competent authorities, if any

The net profits of the Company after Zakat and income tax was (SR 85.21) million in 2020G compared to (SR 54.66) million in 2019G. The total revenue of the Company was (SR 303.34) in 2020G compared to (SR 311.37) million in 2019. Total shareholders' equity was at the end of 2020 (SR 1,586.07) million compared to (SR 1,500.09) million in 2019G. The Company has also achieved net profit, before Zakat and income tax, of (SR 97.58) million in 2020, compared to (SAR 78.73) million in 2019G.

# Company Structure

Table 4: The following table summarizes the Company's structure before and after the Offering:

| Shareholder | Before the Offering | | | After the Offering | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Ownership Percentage (%) | Nominal Value of Shares (Saudi Riyal) | Number of Shares | Ownership Percentage (%) | Nominal Value of Shares (Saudi Riyal) |
| Arab National Bank | 40,000,000 | 40% | 400,000,000 | 28,000,000 | 28% | 280,000,000 |
| Dar Al Arkan Real Estate Development Company | 15,000,000 | 15% | 150,000,000 | 10,500,000 | 10.50% | 105,000,000 |
| Kingdom of Installment Trading Company | 9,000,000 | 9% | 90,000,000 | 6,300,000 | 6.30% | 63,000,000 |
| Yousef bin Abdullah Al Shelash | 8,000,000 | 8% | 80,000,000 | 5,600,000 | 5.60% | 56,000,000 |
| Hethloul bin Saleh Al Hethloul | 6,000,000 | 6% | 60,000,000 | 4,200,000 | 4.20% | 42,000,000 |
| Tariq bin Mohammed Al Jarallah | 6,000,000 | 6% | 6,000,000 | 4,200,000 | 4.20% | 42,000,000 |
| International Finance Corporation | 5,000,000 | 5% | 50,000,000 | 3,500,000 | 3.50% | 35,000,000 |
| Abdullatif bin Abdullah Al Shalash | 5,000,000 | 5% | 50,000,000 | 3,500,000 | 3.50% | 35,000,000 |
| Inmaa Al Madaen Company | 4,000,000 | 4% | 40,000,000 | 2,800,000 | 2.80% | 28,000,000 |
| Daaim Al Khaleej Company | 2,000,000 | 2% | 20,000,000 | 1,400,000 | 1.40% | 14,000,000 |
| The Public | - | - | - | 30,000,000 | 30% | 300,000,000 |
| **Total** | **100,000,000** | **100%** | **1,000,000,000** | **100,000,000** | **100%** | **1,000,000,000** |

# Vision, Mission and Strategy

## Vision

Contribute to achieving the Kingdom's Vision 2030 in raising the percentage of ownership of homes through financing citizens through financial solutions compatible with Islamic Sharia.

## Mission

We seek to provide a variety of financing solutions that meet the needs of all segments of customers to easily own their properties through using the latest technologies.

## Values

- **Digital:** Develop digital communication channels with customers
- **Speed:** Streamline the customer journey with smooth procedures
- **Growth:** Achieve a developed environment and sustainable growth

## Strategy

Saudi Home Loans Company seeks to be the leading company in the field of Sharia compliant real estate financing and increase its returns at a steady and balanced pace, which contributes to consolidating its position and its leading role in the real estate finance sector in the Kingdom of Saudi Arabia. The Company's success and stability is also due to the presence of a team with extensive experience in this field, high productivity and keenness to achieve the Company's strategic objectives.

**The Company's strategic objectives are based on the following initiatives:**

- **Strengthening its leading position in the field of real estate finance**

The Company aims to strengthen its leadership position in the field of real estate finance, specifically in the field of financing individuals, to enable them to own adequate housing through financing solutions compatible with Islamic Sharia.

- **Develop a variety of financing solutions**

The Company seeks to become the best choice in providing financing solutions compatible with the principles of Islamic law for individuals through a variety of products that suit all targeted segments.

- **Increase the size of the credit portfolio**

The Company aims to increase the size of the financing portfolio and increase the returns on assets by offering its products to the largest possible segment.

- **Create a stimulating work environment**

The Company is keen to create a fruitful work environment by creating a healthy work culture that encourages employees to cooperate and raise productivity and efficiency in performance.

- **Adopt the best practices for risk management**

The Company is working on developing a risk management plan by analyzing and evaluating potential risks and setting procedures to ensure curbing and controlling them. The Company also seeks to increase the targeted segments in order to reduce the risks arising from some categories and to diversify the categories in the financing portfolio.

- **Enrich customer experience**

The Company seeks to provide the best services to its customers by improving work procedures and mechanisms. It also works on developing technical systems and increasing the spread of sales channels where best practices are used in exploiting channels of communication with customers. The Company has also developed a plan for geographical marketing in the regions to cover the largest possible segment of potential customers in the Saudi market.

- **Update the identity and keep pace with the digital transformation**

The Company has updated its brand and visual identity to reflect its growth strategy that aims to enable citizens to own their properties through various financing solutions that meet the needs of all customer segments with ease and through the latest technologies.

- **Develop relationships with Public and Private Agencies and institutions**

In order to expand the framework of work, the Company seeks to develop joint relations with relevant parties, the most important of which are the Ministry of Housing, the Real Estate Development Fund, the National Housing Company, and a number of other agencies and efforts in order to diversify its fields of services and products, which serves the common interests with all parties.

# Strength and Competitive Advantages of the Company:

## Competitive Advantages

### A leading Company in the Field of Real Estate Finance:

Through a journey full of achievements over the past decade, Saudi Home Loans Company has been able to consolidate its position as one of the most distinguished and stable financing companies.

### Strong Financial Condition and High Financing Capacity:

The Company witnessed a strong financial performance during the previous years, as it maintained high profit margins despite the slowdown in the general economic conditions, which enabled the Company to continue developing its business and continuing to improve the quality of its real estate financing services, as the Company's profits rose at an accumulating rate equivalent to 44.6% during the three past years from 2018G to 2020G.

### Fast and Streamlined Procedures:

The Company aims to continuously improve, accelerate and increase the efficiency of the services provided to its current and potential customers. Therefore, the Company is constantly working on developing technical systems and increasing the spread of sales channels, where best practices are used in the exploitation of digital platforms.

### Senior Management with Extensive Experience:

The Company's senior management team has extensive experience in the banking, financial and real estate finance fields, and each member has a record of outstanding achievements in the financial and operational aspects, as they held senior and leadership positions in various banks, financial companies and government sectors.

### Innovation:

A talented and experienced team is working to enrich the products offered by the Company with a high-end set of innovative services and products that may exceed the aspirations of customers and aim to provide adequate housing for customers, in line with the Kingdom's vision 2030 by building a vibrant community and a populated environment.

# Market Information

## Market Overview

### Economy Overview

Since the launch of Vision 2030, the Kingdom of Saudi Arabia has taken many measures aimed at diversifying the economy and reducing dependence on oil. These reforms have led to an increase in confidence in the Kingdom's economic performance and move up of the Saudi Arabia's ranking by about 30 places in the World Bank's ease of doing business index, as it ranked 62 (according to the World Bank Group's Doing Business 2020 report). The government continues to implement economic and social reforms to achieve the goals of Vision 2030 with the help of several tools, including activating of the role of the Public Investment Fund (one of the largest sovereign funds in the world) and launching privatization programs to expand the participation of the private sector. It is expected that all these economic and regulatory developments will contribute to further facilitation, which will reflect positively on the business environment in the Kingdom, and thus will provide great opportunities for the growth of the real estate finance sector.

Table 5: Key Macroeconomic Indicators:

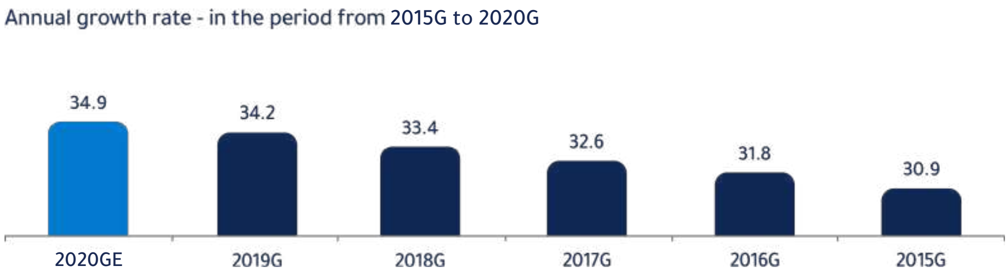
| Indicator | 2015G | 2016G | 2017G | 2018G | 2019G | 2020G |
|---|---|---|---|---|---|---|
| GDP at current prices (SR billion) | 2,454 | 2,419 | 2,582 | 2,949 | 2,974 | 2,625 |
| GDP growth (annual growth rate %) | (13.5%) | (1.4%) | 6.8% | 14.2% | 0.8% | (11.7%) |
| Population (million) | 30.9 | 31.8 | 32.6 | 33.4 | 34.2 | 34.9 |
| GDP per capita (SR) | 78,987 | 76,083 | 79,177 | 88,271 | 86,892 | 74,763 |
| Budget Balance (SR billion) | (389) | (311) | (238) | (174) | (133) | (289) |
| CPI inflation (annual rate of change %) | 1.2% | 2.0% | (0.8%) | 2.5% | (2.1%) | 3.5% |
| Trade balance (SR billion) | 166.0 | 209.1 | 369.2 | 632.8 | 455.0 | 172.6 |

Source: Ministry of Finance, Saudi Central Bank, General Authority for Statistics

### Population Growth

The total population of the Kingdom of Saudi Arabia increased at a compound annual rate of 2.59% annually during the period from 2015G to 2019 to reach 34.2 million people in 2019G. The population of Saudi Arabia was 30.9 million in 2015G. The following graph shows the historical population census between 2015G to 2020G.

Figure 1: Population of the Kingdom of Saudi Arabia (in millions of people)




E means Estimated

Source: General Authority for Statistics, Kingdom of Saudi Arabia

## Saudi Real Estate Financing Sector

The total number of banks operating in the Kingdom of Saudi Arabia reached 28 commercial banks, including 11 local Saudi banks and 13 branches representing foreign banks authorized to operate within the Kingdom. Also, a license has been granted to 4 foreign banks to conduct their operations in the Kingdom, until the end of 2020.

In addition, a total of 39 non-banking financial companies are authorized to operate within the Kingdom. Non-bank financial companies include one real estate refinancing company, one microfinance company, one contract registration company, 6 real estate financing companies, and 30 non-real estate financing companies. With regard to the structure of the Saudi real estate finance market, it contains 6 real estate finance companies (as shown in the table below) in addition to 14 Commercial Banks that provide various types of real estate finance to include citizens and expatriates.

## Size of the Real Estate Finance Market

The total size of the Saudi real estate finance market amounted to 607 billion Saudi Riyals based on the mortgage loans due in favor of all mortgage service providers for the year 2020. Commercial Banks accounted for the largest part of the market, with a market share of nearly 70.5%, while the real estate finance companies contributed about 4%, and the Real Estate Development Fund represented the remaining 25.5%.

Table 6: Market size of the real estate finance in the Kingdom of Saudi Arabia- 2020G:

| Source | Loans Disbursed (SAR Million) | Market Share (%) |
|---|---|---|
| Real estate finance companies | 23,524 | 3.88% |
| Commercial banks | 428,411 | 70.58% |
| Real Estate Development Fund | 155,018 | 25.54% |
| **Total** | **606,953** | **100.00%** |

Source: 4SiGHT calculations based on Annual Statistics from the Saudi Central Bank

The market segmentation by type of loan indicates that the retail sector accounted for approximately 81% of the market, while the corporate sector accounted for 19% of the loans paid in 2020.

Table 7: Market Segmentation by Customer Type- 2020G:

| Customer Segment | Loans Disbursed (SAR Million) | Percentage of Total (%) |
|---|---|---|
| Retails sector | 490,356 | 80.8% |
| Corporate sector | 116,956 | 19.2% |
| **Total** | **606,953** | **100.0%** |

Source: 4SiGHT calculations based on Annual Statistics from the Saudi Central Bank

# Summary of Financial Information and Key Performance Indicators

## Income Statement

Table 8: Income statement for the fiscal years ending on December 31, 2018, 2019 and 2020:

| (SAR'000) | Fiscal year 2018G (Audited) | Fiscal year 2019G (Audited) | Fiscal year 2020G (Audited) | Six-month period ending June 30, 2021 |
|---|---|---|---|---|
| Rental finance income | 302,058 | 298,572 | 290,115 | 140,661 |
| Service fee | 10,156 | 8,783 | 7,298 | 2,857 |
| Application and evaluation fees | 2,932 | 4,014 | 5,274 | 2,896 |
| other income | 238 | - | 655 | 3,061 |
| **Total operating income** | **315,385** | **311,369** | **303,342** | **149,476** |
| Financing costs | (131,700) | (137,201) | (93,168) | (37,448) |
| General and administrative expenses | (50,692) | (56,341) | (93,688) | (50,651) |
| Provision for Expected Credit Loss | (32,189) | (11,224) | (7,500) | 11,628 |
| Selling and marketing expenses | (25,023) | (27,878) | (11,410) | (6,476) |
| **Total operating expenses** | **239,605** | **232,643** | **205,766** | **82,947** |
| **Net income before Zakat and income tax** | **75,780** | **78,725** | **97,577** | **66,529)** |
| Zakat and income tax for the current year | (11,047) | (11,727) | (12,735) | (6,486) |
| Zakat of previous years | (25,461) | (12,832) | - | (914) |
| Deferred tax | 1,455 | 495 | 274 | (369) |
| **Total Zakat and Income Tax** | **(35,052)** | **(24,064)** | **(12,461)** | **(7,769)** |
| **Net income** | **40,728** | **54,661** | **85,116** | **58,759** |
| As a percentage of revenue | | | | |
| **Total operating expenses** | **76.00%** | **74.70%** | **67.80%** | **55.50%** |
| **Net income** | **12.90%** | **17.60%** | **28.10%** | **39.30%** |

| (SAR'000) | Fiscal year 2018G (Audited) | Fiscal year 2019G (Audited) | Fiscal year 2020G (Audited) | Six-month period ending June 30, 2021 |
|---|---|---|---|---|
| Key Performance Indicators | | | | |
| Average Annual Percentage ratio | 7.10% | 6.90% | 6.70% | 6.60% |
| Average cost of financing | 4.60% | 4.90% | 3.30% | 2.70% |
| Total return | 2.50% | 2.00% | 3.30% | 3.80% |
| Value of established contracts (SAR'000)) | 375,541 | 451,423 | 464,694 | 337,630 |
| Number of contracts established | 497 | 673 | 664 | 476 |
| Average value of established contracts (SAR'000) | 756 | 671 | 700 | 723 |
| Portfolio sales (SAR'000) | - | - | 50 | 92.8 |

Source: Management information and financial statements for the fiscal years ending on December 31, 2018, 2019 and 2020 and the financial statements for the six-month period ending on June 30, 2021

## Cash Flow Statement

Table 9: Consolidated statement of cash flows for the fiscal years ended December 31, 2018, 2019 and 2020:

| (SAR'000) | Fiscal year 2018G (Audited) | Fiscal year 2019G (Audited) | Fiscal year 2020G (Audited) | Six-month period ending June 30, 2021 |
|---|---|---|---|---|
| Operational activities | | | | |
| Net income before Zakat and income tax | 75,780 | 78,725 | 97,577 | 66,529 |
| Adjustments to reconcile net income before Zakat and income tax to net cash generated from operating activities: | | | | |
| Depreciation and amortization | 2,778 | 5,327 | 5,201 | 2,219 |
| Amortization of Deferred construction fee | 3,746 | 4,128 | 3,976 | 1,844 |
| Provision for Expected Credit Loss | 32,189 | 11,224 | 7,500 | (11,628) |
| Provision for severance pay | 1,638 | 1,879 | 1,887 | 849 |
| Financial fees for rental obligations | - | 527 | 236 | 191 |
| Net (increase) / decrease in operating assets: | | | | |
| Prepaid expenses and other assets | (15,260) | (26,161) | (6,804) | (547) |
| Due from related parties | 134 | 132 | 132 | (10,204) |
| Advance payments property owners | 5,845 | 3,519 | (4,381) | (5,528) |
| Investments in a finance lease | (65,039) | (63,551) | 33,380 | (4,672) |
| Net increase / (decrease) in operating liabilities: | | | | |
| Accounts Payable | 29,182 | 19,655 | (42,487) | (1,889) |
| Accrued expenses and other liabilities | 666 | 2,589 | 229 | 3,774 |
| Advance Rentals | (3,826) | (282) | (3,099) | 4,970 |
| Net cash from operations | 67,834 | 37,710 | 93,347 | 55,339 |
| Zakat and income tax | (6,750) | (32,995) | (16,068) | (13,349) |
| Paid severance pay | (369) | (1,203) | (2,031) | (330) |
| Deferred construction fee paid | (1,119) | (109) | (212) | (62) |

| (SAR'000) | Fiscal year 2018G (Audited) | Fiscal year 2019G (Audited) | Fiscal year 2020G (Audited) | Six-month period ending June 30, 2021 |
|---|---|---|---|---|
| Net cash generated from operating activities | 59,596 | 3,403 | 75,036 | 41,599 |
| Investment activities | | | | |
| Purchase of property and equipment | (555) | (1,677) | (1,551) | (551) |
| Purchase of intangible assets | (622) | (1,401) | (766) | (148) |
| Net cash used in investing activities | (1,177) | (3,078) | (2,317) | (698) |
| Financing Activities | | | | |
| Additions to Tawarruq Financing Facility | 282,478 | 365,486 | 234,831 | 103,244 |
| Paying Tawarruq Financing Facility | (286,341) | (387,802) | (216,870) | (176,247) |
| Main part of the obligation to pay rent | - | (3,453) | (2,552) | (2,617) |
| Net cash used in financing activities | (3,862) | (25,768) | 15,409 | (75,620) |
| Net increase/(decrease) in cash and cash equivalents | 54,557 | (25,444) | 88,128 | (34,719) |
| Cash and Cash equivalents at the beginning of the year | 25,086 | 79,643 | 54,200 | 142,328 |
| Cash and Cash equivalents at the end of the year | 79,643 | 54,200 | 142,328 | 107,609 |

Source: Management information and financial statements for the fiscal years ending on December 31, 2018, 2019 and 2020 and the financial statements for the six-month period ending on June 30, 2021

## Statement of Financial Position

Table 10: Statement of financial position for the fiscal years ending on December 31, 2018, 2019 and 2020:

| (SAR'000) | Fiscal year 2018G (Audited) | Fiscal year 2019G (Audited) | Fiscal year 2020G (Audited) | Six-month period ending June 30, 2021 |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalent | 79,643 | 54,200 | 142,328 | 107,609 |
| Prepaid expenses and other assets | 37,999 | 64,263 | 67,771 | 58,661 |
| Payments made to property owners | 5,911 | 2,393 | 6,774 | 16,978 |
| Due from related parties | 897 | 765 | 633 | 1,180 |
| Investments | 893 | 893 | 893 | 893 |
| Investments in finance lease, net | 4,190,325 | 4,238,416 | 4,199,139 | 4,216,180 |
| Deferred construction fee | 29,810 | 25,792 | 22,028 | 20,246 |
| Other properties | 2,830 | 6,963 | 8,657 | 13,123 |
| Right of Use Assets | - | 6,309 | 3,806 | 2,601 |
| Property and equipment | 4,065 | 4,768 | 5,272 | 4,658 |
| Deferred tax assets | 4,069 | 4,564 | 4,837 | 4,468 |
| Intangible assets | 3,562 | 3,157 | 2,500 | 2,735 |
| **Total assets** | **4,360,005** | **4,412,483** | **4,464,638** | **4,449,332** |
| Liabilities and Equity | | | | |
| Accounts Payable | (30,938) | (50,593) | (8,106) | (6,218) |
| Accrued expenses and other liabilities | (6,507) | (9,096) | (9,326) | (13,100) |
| Advance Rentals | (7,779) | (7,496) | (4,397) | (9,367) |
| Lease obligations | - | (5,930) | (3,842) | (1,353) |
| Provision for Zakat and income tax | (36,414) | (27,978) | (24,645) | (18,696) |
| Tawarruq Financing Facility | (2,824,238) | (2,801,923) | (2,819,884) | (2,746,881) |
| Employee Defined Benefit Obligations | (8,590) | (9,377) | (8,372) | (9,026) |

| (SAR'000) | Fiscal year 2018G (Audited) | Fiscal year 2019G (Audited) | Fiscal year 2020G (Audited) | Six-month period ending June 30, 2021 |
|---|---|---|---|---|
| **Total Liabilities** | **(2,914,466)** | **(2,912,393)** | **(2,878,571)** | **(2,804,642)** |
| Equity | | | | |
| Capital | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Statutory reserve | 92,182 | 97,649 | 106,160 | 112,036 |
| Actuarial Assessment reserve | 407 | 296 | 1,157 | 1,023 |
| Retained earnings | 352,950 | 402,145 | 478,749 | 531,632 |
| **Total Equity** | **1,445,539** | **1,500,089** | **1,586,066** | **1,644,691** |
| **Total liabilities and equity** | **4,360,005** | **4,412,483** | **4,464,638** | **4,449,332** |
| Key Performance Indicators | | | | |
| Debt service | 49.50% | 50.60% | 51.50% | 52.3% |
| Loans to value | 85.30% | 84.90% | 82.60% | 82.4% |
| Debt to Equity | 1.9 | 1.9 | 1.7 | 1.6 |
| Return on assets | 0.90% | 1.20% | 1.90% | 1.3% |
| Return on equity | 2.80% | 3.60% | 5.40% | 3.6% |

Source: Management information and financial statements for the fiscal years ending on December 31, 2018, 2019 and 2020 and the financial statements for the six-month period ending on June 30, 2021

# Summary of Risk Factors

Each potential investor should carefully study all the information contained in this Prospectus, in particular the risk factors identified below and detailed in Section (2) ("**Risk Factors**"), before making any decision regarding investing in the Offer Shares.

## Risks Related to the Company's Operations and Activities

- Risks related to the Company's strategy
- Liquidity Risks
- Risks Related to Profit Margins
- Risks related to Contingent Liabilities
- Risks related to Transaction of Contracts for Sale of the Company's Financing Portfolios
- Risks related to the Company's Inability to Obtain and Renew Necessary Licenses, Permits and Certificates
- Risks related to Capital Adequacy
- Risks related to Potential Tax and Zakat Dues
- Risks related to an Increase in Doubtful Accounts
- Risks related to Information Technology (IT) Systems and Cyber Security
- Risks related to Third Party Services
- Risks Related to Credit Ratings
- Risks related to Financial Leverage
- Risks related to the Risk Management Systems, Policies and Procedures
- Risks related to a Gap Between Maturity of Assets and Liabilities
- Risks Related to Insurance Coverage
- Risks associated with Seasonal Factors related to the Company's Revenues
- Risks related to Non-compliance with Nationalization Requirements
- Risks related to Employee Misconduct and Errors
- Credit Risks
- Operational Risk
- Risks related to Financing Agreements
- Risks related to Reliance on Senior Management and Key Personnel
- Risks related to the Protection of the Company's Trade Name and Intellectual Equity
- Risks related to the Company's Ability to Obtain Future Financing
- Risks related to the High Cost of Financing
- Risks related to the Implementation of Guarantees Provided by Clients
- Risks related to the Impairment of the Value of Assets Provided as Collateral
- Risks related to Clients' Default and Inability to Pay

## Risks Related to the Market, Industry and Regulatory Environment

- Risks related to Fluctuations in the Real Estate Market
- Risks related to Anti-money Laundering and Terrorist Financing and Other Relevant Regulations
- Risks related to Litigation Proceedings
- Risks related to Title deeds Register
- Risks Associate with the Interpretation of Sharia Principles related to Lease Contracts before the Company obtains a License to Practice Real Estate Finance Activity from the Central Bank of Saudi Arabia
- Risks associated with Related Party Transactions
- Risks Related with Difficulty in Liquidating Real Estate Investments

- Risks related to the Company's Operations that are Affected by Economic Risks in the Kingdom
- Risks related to the Competition and its intensity
- Risks related to Compliance with the Companies Law, Corporate Governance Regulations and Central Bank Regulations
- Risks related to White Land Fees
- Risks related to Real Estate Tax
- Risks related to Changing the Mechanism for Calculating Zakat and Income
- Risks related to the Imposition of New Laws and Regulations that Affect the Company's Implementation of its Operations
- Risks related to Natural Disasters and Epidemic Outbreaks
- Risks related to the Future Growth of the Non-banking Finance Sector

## Risks Related to the Offered Shares

- Risks related to the Market and Potential Fluctuation and Volatility in the Share Price
- Risks related to Lack of Experience in Managing Listed Joint Stock Companies
- Risks related to Lack of Demand for the Company's Shares
- Risks related to the Actual Control by the Current Shareholders after the Offering
- Risks related to the Absence of a Previous Market for the Company's Shares
- Risks related to Selling a Large Number of Shares in the Market
- Risks related to the Distribution of Dividends and Restrictions Imposed by Financiers on the Distribution of Dividends
- Risks related to Issuance of New Shares in the Future

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# Terms and Definitions

# 1- Terms and Definitions

| Terms | Definitions |
|---|---|
| Underwriting Agreement | Underwriting Agreement between the Company and the Underwriter entered into between the Company, the Selling Shareholders and the Underwriter in connection with the Offering |
| The Company | Saudi Home Loans Company under Commercial Registration No. (1010241934) dated 22/12/1428H (corresponding to 01/01/2008G) |
| Ijarah | A financing product designed to finance clients wishing to purchase properties from a third party, where the Company purchases the property from the property owner (a third party) and registers the title deed in the name of the Company (the financier) and then leases it to the client (borrower) for a certain period in return for rental payments with a promise to the client to render him the property as a gift at the end of the rental period under a lease contract. At the end of the rental period and after the full rental payments are settled, the ownership of the property is transferred to the client and the title deed is transferred in his name as a gift in return for his fulfilment of payment of the full rental amounts. |
| Forward Ijarah | A financing product designed to finance a property under construction or off-plan sales units, where the property is purchased from the owner (the developer) at installments kinked with the construction stages and completion progress percentage and leased the property to the customer as a forward Ijarah with the promise to render the property to him as a gift at the end of the rental period. The title deed of the property is transferred to the name of the Company, after settlement of the last installment payments of the purchased unit. Upon completion of the property and the issuance of the deed, the customer pays a retainer during the financing period before receiving the unit is considered as an advance rental payment upon receiving the unit and continues to make rental payments until the end of the agreed rental period, provided that the ownership of the property shall be transferred and the title deed is registered in the name of the customer as a gift in return for his fulfillment of payment of the full rental amounts. |
| Istisnaa' | A financing product designed to finance real estate projects and off-plan sales projects for real estate developers, where the developer is financed by the Company buying real estate units under construction from the developer and lease them on a forward Ijarah with the promise of a gift, the project deed is registered in the Company's name as a guarantee for the payment of financial obligations and lease payments from the developer When the developer pays all the rental payments, the ownership of the property is transferred to the developer and the title deed of the real estate unit is granted by way of a gift. |
| Self-construction financing product | A financing product approved by the Shariah Board for financing individuals wishing to obtain cash to build a property by Murabaha mode of financing, where the client submits an engineering report and the expected construction cost for building the property, and after the credit evaluation, the client is given a total financing amount to be disbursed to him in installments commensurate with the construction stages and progress percentage of the building. The Company buys shares or commodities and sells them to the client, or the client authorizes the Company to buy those commodities and sell them on his behalf to obtain liquidity. The property is mortgaged to the Company until all the financing dues are settled. |
| Off-plan sale | A financing product approved by the Shariah Board for clients wishing to obtain financing to own a property under construction by approved developers using Ijarah mode of financing. |
| Mortgage Financing | A financing product approved by the Shariah Board to finance customers who wish to obtain cash, in return for mortgaging real estate owned by them in the form of Ijarah. The Company purchases the property from the customer, pays its value, and registers the title deed in the name of the Company (the financier) and then leases it to the customer (the borrower) for a certain period in return for lease payments with the customer's promise to own the property at the end of the lease period under the lease contract. At the end of the lease term, and after the full lease payments are completed, the ownership of the property is transferred and the Title deed is registered in the name of the customer as a gift in return for his fulfillment of payment of the full rental amounts. |

| Terms | Definitions |
|---|---|
| Non-recourse contracts or non-recourse contract | A contract in which the lender or the buyer of the portfolio bears the risk of non-payment by the borrowing customers. This risk is directly borne by the lender or the buyer of the portfolio and cannot demand payment or the acquisition of assets to any party not specified in the loan contract, the seller of the portfolio or the company. |
| Individual clients | Natural persons, and the Company is allowed to finance persons who are citizens as well as residents if they obtain the necessary approvals from the relevant authorities. |
| SAIBOR | The interest rate between Saudi banks. |
| SAIBOR+ | The interest rate between Saudi banks in addition to the profit margin of the financing entity or banks. |
| Loan amount to Asset Value or (LTV) | It is a percentage used by banks and finance companies to represent the limit of the financing percentage of the value of the financed real estate asset. It is calculated by dividing the finance amount by the value of the financed real estate asset. |
| Fixed interest | The interest rate that remains fixed throughout the financing period. |
| Variable interest | An interest rate that changes if the underlying benchmark index, such as the SAIBOR, changes |
| Profit Rate Swaps | An Islamic financial derivative to hedge against fluctuation in interest rates is an agreement between two counterparties in which one stream of future financing payments is exchanged for another based on a specified principal amount. Interest rate swaps (SAIBOR) typically involve exchanging a fixed rate of interest at a floating rate (or variable), or vice versa, to reduce or increase exposure to fluctuations in interest rates or to obtain a marginally lower interest rate than would have been possible without the swap. |
| GDP | Gross Domestic Product (the most comprehensive quantitative measure of a country's total economic activity, and represents the monetary value of all goods and services produced within a country's geographical borders over a certain period of time). |
| GDP per capita | Gross Domestic Product per capita, which is a measure of a country's average per capita income (calculated by dividing GDP by population). |
| Listing | Listing Securities in the Market, whether in the Main Market or Parallel Market, or where the context of the text permits, by filing an application to the Market to list the Securities. |
| Subscription Application Form | Which are used by the participating entities to apply for subscription in the Offer Shares during the book-building period. This term includes (as the case may be) the Supplementary Subscription Application Form when the price range is changed. |
| Shares | 100,000,000 shares in the Company, fully paid, with a nominal value of ten (SR 10) Saudi Riyals per share. |
| Offer Shares | 30,000,000 ordinary shares of the Company. |
| Directors | Members of the Company's Board of Directors. |
| Relatives or the Individual's family | Husband, wife and minor children. |
| Board Secretary | Secretary of the Board of Directors. |
| Management | Company management. |
| Person | Any natural or legal person recognized by the laws of the Kingdom in this capacity. |

| Terms | Definitions |
|---|---|
| Board Member | Includes members of the Company's Board of Directors. |
| General Assembly | The General Meeting that is held in the presence of the Company's shareholders in accordance with the provisions of the Companies Law and the Company's Articles of Association, and it may be ordinary or extraordinary. |
| Ordinary General Assembly (OGM) | The Ordinary General Meeting of the Company's shareholders, which is held in accordance with the Articles of Association. |
| Extraordinary General Assembly (EGM) | The Extraordinary General Meeting of the Company's shareholders, which is held in accordance with the Articles of Association. |
| Public | Persons other than the following:<br><br>1. Affiliates of the issuer.<br>2. Substantial shareholders of the issuer.<br>3. Directors and senior executives of the issuer.<br>4. Directors and senior executives of the affiliates of the issuer.<br>5. Directors and senior executives of substantial shareholders of the issuer.<br>6. Any relatives of the persons in (1, 2, 3, 4, or 5) above.<br>7. Any company controlled by any person in (1, 2, 3, 4, 5, or 6) above.<br>8. Persons who act together in agreement and jointly own (5%) or more of the class of shares that will be listed |
| Receiving Agents | Receiving Agents whose names are mentioned on page (xi) of this Prospectus. |
| Instructions on Book Building and Allocation of Shares in Offerings | Instructions on Book Building and Allocation of Shares in Offerings issued under CMA Board Resolution No. 2-94-2016 dated 15/10/1437H (corresponding to 20/07/2016G), as amended by CMA Board Resolution No. 3-102-2019 dated 18/01/1441H (corresponding to 17/09/2019G). |
| CEO | Chief Executive Officer of the Company |
| Chairman | Chairman of the Company's Board of Directors |
| "SAR" or "SR" or Riyal | Saudi Riyal. The official currency of the Kingdom of Saudi Arabia. |
| Offering Price | Twenty (20) Saudi Riyals per share. |
| Fiscal year | The Company's fiscal year, from 1 January to 31 December of each fiscal year. |
| The Exchange or The Market or Tadawul | The Saudi Stock Exchange (Tadawul) or the Saudi Capital Market. |
| Main Market | The market in which registered and offered shares are traded in accordance with the Rules on the Offer of Securities and Continuing Obligations. |
| Capital Market Institutions | A person licensed to carry out securities business by the Capital Market Authority. |
| Official Gazette | Umm Al-Qura newspaper, which is the official newspaper of the Kingdom's government. |
| The Offering | Public offering of the Offer Shares. |

| Terms | Definitions |
|---|---|
| Related Party | The term "**Related Party**" or "**Related Parties**" as used in this Prospectus, in accordance with the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority issued by the CMA Board under Resolution No. 4-11-2004 dated 20/08/1425H (corresponding to 4/10/2004G), as amended by CMA Board Resolution No. 2-22-2021 dated 12/07/1442H (corresponding to 24/02/2021G), refers to:<br><br>a. Affiliates of the issuer.<br>b. Substantial shareholders of the issuer.<br>c. Directors and senior executives of the issuer.<br>d. Directors and senior executives of the affiliates of the issuer.<br>e. Directors and senior executives of substantial shareholders of the issuer.<br>f. Any relatives of the persons in (a, b, c, d, or e) above.<br>g. Any company controlled by any person in (a, b, c, d, e, or f) above.<br><br>In item g, "**control**" means the ability to, directly or indirectly, influence the acts or decisions of another person, individually or collectively with a relative or affiliate, through any of the following: (1) Holding 30% or more of the voting rights in the Company, and (2) The right to appoint 30% or more of the members of the administrative staff. The word "**controller**" shall be construed accordingly. |
| Participating Entities | In accordance with the Book Building Instructions and Allocating Shares in Initial Public Offerings, the categories that are entitled to participate in the book building process are:<br><br>a. Public and private funds that invest in securities listed on the Saudi Stock Exchange as permitted by the fund's terms and conditions and in accordance with the provisions and limitations stipulated in the Investment Fund Regulations and Book-Building Instructions.<br>b. Authorized persons licensed by the CMA to deal as a principal, in accordance with the Prudential Rules when submitting the subscription application.<br>c. Clients of a person authorized by the CMA to conduct managing activities in accordance with the provisions and restrictions set forth in the Book-Building Instructions.<br>d. Any legal persons allowed to open an investment account in the Kingdom of Saudi Arabia and an account with the Depository Centre, including foreign legal persons who are allowed to invest in the market where the shares of an issuer are to be listed, observing the conditions on listed companies investing in listed securities set out in CMA Circular No. 05158/6 dated 11/08/1435H (corresponding to 9/06/2014G) based on CMA Board Resolution No. 9-28-2014 dated 20/07/1435H (corresponding to 19/05/2014G).<br>e. Government entities, any supranational authority recognised by the CMA, the Exchange, or any other stock exchange recognised by the CMA, or the Depository Centre.<br>f. Government-owned companies, whether investing directly or through a portfolio manager.<br>g. GCC companies and GCC funds, if allowed according to the terms and conditions of such funds. |
| Lock-up Period | The period during which Substantial Shareholders may not dispose of any of their shares for six months, beginning from the date the Company's shares start to be traded in the Exchange |
| Offering Period for Individuals | The Offering Period will commence on 24/08/1443H (corresponding to 27/03/2022G) and will remain open for a period of (3) days, including and up to the Offering closing date, which occurs on 26/08/1443H (corresponding to 29/03/2022G). |
| Registration and Offering Application | Any application submitted to the Authority for registration and/or offering of securities of any kind. |
| Applicants of Subscription Applications | Individual and Institutional Subscribers. |

| Terms | Definitions |
|---|---|
| Financial Statements | The audited financial statements of the Company for the fiscal year ended on December 31, 2018, and the accompanying notes that are included in other parts of this Prospectus, have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as amended by the Saudi Central Bank (SAMA) and are audited by the Company's auditor, KPMG Professional Consulting.<br><br>The Company's audited financial statements for the fiscal year ending on December 31, 2019 and 2020 and the reviewed interim financial statements for the six-month period ending on June 30, 2021 and the accompanying notes attached thereto that are included in other parts of this Prospectus have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") adopted in the Kingdom of Saudi Arabia and other versions approved by the Saudi Organization for Auditors and Accountants ("**SOCPA**"), and reviewed by the Company's auditor KPMG Professional Consulting. |
| Listing Rules | The Listing Rules approved by of the Capital Market Authority board's resolution no. 3-123-2017, dated 09/04/1439H (corresponding to 27/12/2017G), and amended by the board resolution No. (1-22-2021), dated 12/07/1442H (corresponding to 24/02/2021G). |
| Rules on the Offer of Securities and Continuing Obligations | The Rules on the Offer of Securities and Continuing Obligations issued by the board of the Capital Market Authority under resolution No. 3-123-2017, dated 09/04/1439H (corresponding to 27/12/2017G), based on the Capital Market Law issued under Royal Decree no. m/30, dated 02/06/1424H, and amended under the Capital Market Authority Board's resolution no. 1-104-2019, dated 01/02/1441H (corresponding to 30/09/2019), and amended by Capital Market Authority Board's resolution no. 1-7-2021, dated 01/06/1442H (corresponding to 14/01/2021G). |
| Senior Executives | Members of the Company's senior management, as specified in table No. (5-5) (The Company's Executive Management). |
| Corporate Governance Regulations | The Corporate Governance Regulations, issued by the board of the Capital Market Authority under resolution no. 8-16-2017, dated 16/05/1438H (corresponding to 13/02/2017G), and amended by the Capital Market Authority resolution of No. 1-7-2021, dated 01/06/1442H (corresponding to 14/01/2021G) and all amendments thereto. |
| Committees | The Executive Committee, the Risk and Credit Management Committee, the Nomination and Remuneration Committee, and the Audit Committee. |
| By-Laws | The Company By-Laws Adopted by the General Assembly. |
| G | Gregorian calendar. |
| Underwriter | Riyad Capital Company. |
| Auditor | KPMG Professional Consulting. |
| Board or Board of Directors | The Company's Board of Directors. |
| GCC | Cooperation Council for the Arab States of the Gulf. |
| Lead Manager | Riyad Capital Company. |
| Bookrunner | Riyad Capital Company. |

| Terms | Definitions |
|---|---|
| Murabaha | A financing product tailored to finance clients wishing to purchase a property from a third party, where the company purchases the property from its owner and then sells it to the client in return for installments with a known and fixed profit margin throughout the financing period under a Murabaha contract. The instrument is registered in the name of the customer and mortgaged to the value of financing in favor of the Company as a guarantee for the customer's payment of the financing installments. Upon completion of the full payment of the financing installments, the mortgage is removed from the instrument. |
| Shareholders | The Shareholders at any Time. |
| Substantial Shareholders | Any person who owns 5% or more of the Issuer's share capital. |
| Selling Shareholders | Shareholders in the Company whose names and percentages of ownership are listed in Table No. (4-1) "**Structure of direct ownership in the Company before and after the offering**" and who will sell part of their shares in the Offering. |
| Qualified Foreign Investor | A foreign investor qualified to invest in the listed securities pursuant to the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities. The qualification application shall be submitted to an authorized person to evaluate and accept in accordance with the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities. |
| Market and Sector Study Consultant | Arabian Market Vision Co. Ltd - 4SiGHT. |
| Legal Advisor | Mohammad Ahmed Al Dhabaan & Partners Law Firm and Legal Consultations. |
| Financial Advisor | Riyad Capital. |
| Advisors | The Company's Advisors in connection with the Offering, whose names appear on page (ix and x) of this Prospectus. |
| Issuer | The Company. |
| SOCPA | The Saudi Organization for Certified Public Accountants. |
| IFRS | International Accounting Standards issued by the Board of International Accounting Standards. The international accounting standards approved by the Saudi Organization for Auditors and Accountants are represented by international accounting standards in addition to some disclosure requirements that have been added to some standards by the Saudi Organization for Auditors and Accountants and other standards and issuances. These standards and publications include standards and technical versions approved by the Saudi Organization for Auditors and Accountants in relation to issues not covered by international accounting standards, such as issues related to Zakat. |
| Individual subscribers | Saudi natural persons, including a divorced or widowed Saudi woman with minor children from a non-Saudi husband, who has the right to subscribe in their names, provided that she submits evidence that she is a divorced or widowed, and proof of her motherhood for the minor children, and any resident non-Saudi natural person who owns an investment account with an authorized person, in addition to Gulf investors with natural personality. |
| Subscribers | Include Individuals and Institutional Subscribers. |
| Country or The Kingdom or Saudi Arabia | Kingdom of Saudi Arabia. |
| Financial Institutions | Banks and Financial Services Companies. |

| Terms | Definitions |
|---|---|
| GOSI | The General Organization for Social Insurance in the Kingdom of Saudi Arabia. |
| Saudi Central Bank or SAMA | The Central Bank of Saudi Arabia |
| Prospectus | This Prospectus, regarding the Offering. |
| Capital Market Law or the Law | The Capital Market Law issued by Royal Decree No. M/30 on 02/06/1424H (corresponding to 01/08/2003G) and all amendments thereto |
| Mortgage Law and its Implementing Regulations | Mortgage Finance Law issued by Royal Decree No. (M/50) dated 13/08/1433H, and its Implementing Regulations issued by the Minister of Finance Resolution No. 1229 dated 10/04/1434H. |
| Finance Companies Control Law and its Implementing Regulations | The Finance Companies Control Law issued by Royal Decree No. M/51 dated 13/08/1433H, and the amendments thereof pursuant to Cabinet Resolution No. 141 dated 05/03/1440H, and its Implementing Regulations issued by the decision of the Governor of the Central Bank of Saudi Arabia No. 2/MShT dated 14/04/1434H. and amendments thereto pursuant to Decision of His Excellency the Governor No. 66/MShT dated 09/07/1439H and pursuant to the decision of His Excellency the Governor No.72/MShT dated 20/06/1440H and the decision of His Excellency the Governor No. 78/MShT on 05/12/1440H, and according to the decision of His Excellency the Governor No. 85/MShT on 26/05/1441H. |
| Companies Law or Companies Regulations | The Companies Law in the Kingdom of Saudi Arabia, issued under royal decree no. (m/3), dated 28/01/1437H (corresponding to 10/11/2015G) and all amendments thereto |
| Labor Law | The Saudi Labor Law issued pursuant to Royal Decree No. (M/51) dated 23/08/1426H (corresponding to 27/09/2005G), and the amendments thereof pursuant to Royal Decree No. (M/24) dated 12/05/1434H (corresponding to 24/03/2013G) and pursuant to Royal Decree No. (M/46) dated 05/06/1436H (corresponding to 25/03/2015G) and Royal Decree No. (M/14) dated 22/02/1440H (corresponding to 31/10/31/2018G), Royal Decree No. (M/134) dated 27/11/1440H (corresponding to 30/07/2019G) and Royal Decree No. (M/5) dated 07/01/1442H (corresponding to 26/08/2020G). |
| Subscription Application Form | Subscription Application Form to Subscribe to the Offer Shares. |
| H | Hijra Calendar. |
| The Authority or CMA | The Capital Market Authority in the Kingdom of Saudi Arabia. |
| Ministry of Commerce | Ministry of Commerce in the Kingdom of Saudi Arabia. |
| Financing Dispute Settlement Committee | It is the Committee for the Resolution of Violations and Financing Disputes in accordance with Royal Decree No. (M/51) dated 13/08/1433H (corresponding to 03/07/2012G). The Committee is responsible for adjudicating violations, disputes and lawsuits arising from the application of the provisions of the Finance Companies Control Law and the provisions of Financial Lease Law and its Implementing Regulations and all amendments thereto. |
| Tadawul System | An automated system for trading Saudi stocks. |
| The Government | Government of the Kingdom of Saudi Arabia. |
| Ministry of Human Resources and Social Development | Ministry of Human Resources and Social Development in the Kingdom of Saudi Arabia. |
| Working Day | Any day on which the Receiving Agents are operating in the Kingdom (except for Fridays and Saturdays and any official holidays). |

2

# Risk Factors

# 2- Risk Factors

Prospective investors should carefully study the risk factors set out below and other information in this prospectus before making any investment decision in relation to the Offer Shares. The risks and uncertainties set out below are those that the Company currently believes may affect it or any investment in the Offer Shares, and they may not necessarily include all risks that may affect the Company or the investing in the Offer Shares. It is possible that there are risks and other uncertainties that are not known to the members of the Board of Directors at the present time, or they believe that they are not currently material. The occurrence or realization of any of these risks or uncertainties may adversely and materially affect the Company's business, financial condition, results of operations and future prospects. This may lead to a decline in the share price, weaken the Company's ability to distribute dividends to shareholders, and also lead to investors losing all or part of their investment in shares.

The members of the Company's Board of Directors also acknowledge that, to the best of their knowledge and belief, there are no other fundamental risks as on the date of this prospectus- other than what was mentioned in this section- that could affect investors' decisions to invest in the Offer Shares. All prospective investors wishing to invest in the Offer Shares must assess the risks of the Company's shares, their offering in general, and the economic and regulatory environment in which the Company operates.

An investment in the Offer Shares is only suitable for investors who are able to assess the risks and benefits of such investment, and who have sufficient resources to bear any loss arising from it. The potential investor who has doubts about the measures he should take should consult a financial advisor licensed by the CMA regarding investing in the Offer Shares.

The risks listed below are not arranged in an order that reflects their importance and expected impact on the Company. Other unknown risks to the Company or those that the Company considers immaterial at the present time may also occur and have the same effects or consequences mentioned in this prospectus. Accordingly, the risks set out in this section or in any other section of this prospectus: (a) may not include all risks that may affect the Company, its operations, activities, assets or markets in which it operates; and/or (b) may not include all the risks involved in investing in the Offer Shares.

## 2-1 Risks related to the Company's Operations and Activities

### 2-1-1 Risks related to the Company's strategy

The future performance of the Company and its ability to implement its expansion plans and growth strategies depend on several factors, such as the Company's ability to manage the risks associated with the expansion of its business by opening new branches, introducing new financing services and products, improving the efficiency of its financial and administrative systems, and improving the efficiency of its human resources in line with these expansions while maintaining the current level of quality. The Company does not guarantee that the systems, procedures and controls adopted by it or its employees are sufficient to support future growth and expansion. Noting that the limited competencies and expertise necessary to provide new services and products will negatively affect the future expansion of the Company and thus negatively affect the success of its business, results of operations and financial condition.

Moreover, the inability of the Company to effectively manage its expansion plans will in turn lead to increased costs and reduced profits, and the Company may not be able to manage these plans in the way that achieves the desired level of profitability. In addition, the Company may not be successful in marketing or selling its new services. Also, the Company may not be able to implement its expansion plans according to the planned schedule, which will negatively affect its business, results of operations, financial condition and future prospects.

### 2-1-2 Liquidity Risks

The Company is exposed to liquidity risks when there is insufficient liquidity for the Company to meet its obligations. These risks are associated with the Company's financing operations and their severity may increase due to a number of specific factors, including any fundamental difference in the maturity dates between the Company's assets and liabilities, as well as over-reliance on a particular funding source (this includes short or long-term financing), or market phenomena such as severe real estate market dilemmas and major disasters. All this would lead to the Company's inability to manage liquidity risk, as if the Company would become unable for any reason to provide the required and sufficient funding or cash to meet its obligations, which would adversely affect the Company's business, financial condition, results of operations and future prospects.

### 2-1-3 Risks Related to Profit Maregins

Risks related to profit margins arise from the effect resulting from their fluctuation and the resulting difference or gap in the amounts of assets, liabilities and financial instruments that mature or re-priced within a specified period. The increase in the profit margin in general may reduce the Company's financing receivables with fixed returns, and thus increase the cost of financing for the Company. The fluctuation of profit margins may result in a re-pricing gap between the Company's assets and liabilities that are affected by these profit margins, which will negatively affect the Company's income from real estate financing activities.

### 2-1-4 Risks related to Contingent Liabilities

Some contingent liabilities may arise on the Company, such as potential provisions related to the Company's real estate financing transactions, the costs and burdens of existing or potential legal cases against the Company, costs related to Zakat and taxes, as well as liabilities related to operating leases. All of these liabilities, if realized, would negatively affect the Company's financial condition, financial position, results of operations and future prospects.

### 2-1-5 Risks related to Transaction of Contracts for Sale of the Company's Financing Portfolios

On 10/11/2020G, the Saudi Home Loans Company sold a real estate portfolio to the Saudi Real Estate Refinancing Company, for fifty-one million three hundred and forty-five thousand one hundred and ninety-eight Riyals and sixteen halalas (SAR 51,345,198.16).

On 30/03/2021G, the Saudi Home Loans Company sold the real estates it owned within its portfolio to the Saudi Real Estate Refinance Company for the amount of ninety-four million nine hundred and sixty-two thousand six hundred and eighty-eight Riyals and fifty-one halalas (SAR 94,962,688.51). The contracts that the Company concludes with the buyers of its financing portfolios may include clauses whereby the Company is appointed as an agent for buyers to collect rents in accordance with the lease contracts with the Company's clients in return for fees that the Company receives for doing so. clients' commitment to the terms of their contracts with the Company entails a power that the Company may use in a way that is inconsistent with the principal (the bank or the refinancing Company) or the Company may act in accordance with instructions inconsistent with the provisions of the relevant contracts, which may expose the Company to the risk of legal conflict with the principal or with its clients. Given the nature of these contracts related to the sale of real estate and the resulting obligations towards the Company in terms of financing installments, in the event that a dispute arises between the contract parties or with the Company's clients, a judgment may be issued that is not in the Company's favor. Therefore, the occurrence of these risks may cause a negative and material impact on the Company's business, results of operations, financial condition and future prospects

### 2-1-6 Risks related to the Company's Inability to Obtain and Renew Necessary Licenses, Permits and Certificates

The Company is subject to a number of laws and regulations that require it to obtain the necessary licenses and permits from the competent regulatory authorities in the Kingdom in order to be able to carry out its activities and provide financing products. The Company currently maintains a number of licenses, certificates, permits and approvals related to its activities, including, but not limited to, the approval of the Saudi Central Bank, the Ministry of Investment license and the Commercial Registration certificates obtained by the Company from the Ministry of Commerce, the Chamber of Commerce membership certificate, the Trademark Registration certificate, the Municipality licenses and civil defense permits, Saudization certificates, Social Insurance contribution certificate, and registration with the General Authority for Zakat, Tax and Customs (including registration and returns for VAT purposes). Such licenses and permits shall remain in effect on an ongoing basis through the Company's compliance with the laws and regulations governing such permits and licenses. If the Company fails to comply with the laws and regulations governing these licenses and permits, the Company may not be able to renew them or obtain additional licenses that may be necessary for its expansion in the future. The failure of the Company to comply with the terms of the licenses and permits related to its activity may lead to the cancellation of such licenses and permits or the Company's exposure to financial fines. Therefore, the cancellation or loss of any license or permit due to non-compliance with the laws and regulations may lead to the suspension and disruption of the Company's business, which leads to a fundamental negative impact on the Company's business, results of operations, financial condition and future prospects. It should be noted that the Company has a set of expired licenses which must be renewed in order to avoid any violations or penalties that may be issued against it or that may prevent the Company from fully carrying out its business and activities. The Company reports that it is in the process of updating all expired licenses and certificates. Please see Section 12-6 ("**Government Licenses, Approvals, and Certifications**")

### 2-1-7 Risks related to Capital Adequacy

The Company is subject to a number of requirements and regulations related to financial solvency and capital adequacy, as the Company is subject to capital adequacy requirements imposed by the Saudi Central Bank. Solvency regulations may limit the Company's activities and increase the cost of practicing its business. In addition, the Company's failure to comply with these regulatory requirements may expose it to various restrictions, penalties and fines. The Company's inability to maintain the required levels of capital adequacy may result, now or in the future, in the Company's inability to provide its services, and any of these factors will have a negative impact on the Company's business, financial condition, results of operations and future prospects.

This type of risk may also require the Company to change its business management method if the Company's capital adequacy ratios decline to a level close to the minimum organizational levels or the Company's internal levels. This will have a negative impact on the Company's business, the products and services it provides, the value of its credit portfolio, its financial position, results of operations and future prospects.

### 2-1-8 Risks related to Potential Tax and Zakat Dues

The Company submitted Zakat returns and obtained certificates from the General Authority for Zakat, Tax and Customs for all years from the date of its establishment until the year 2020. The Company also paid the due Zakat on the specified dates and paid all Zakat liabilities for this period. If claims arise for previous years, this will affect the Company's financial condition. The Kingdom issued the value-added tax system, which entered into force on January 1, 2018G. In the year 2020G, the value added tax has been increased to 15% on a number of products and services, including financial services provided by the Company, according to what is stated in the system. Any violation or wrong application of this system by the Company's management or employees will expose the Company to fines, penalties or damage of reputation. This will also increase costs and operating expenses, which could reduce the competitive position of the Company and the level of demand for its products and services, which will have a negative impact on its business, financial condition, results of operations and future prospects.

### 2-1-9 Risks related to an Increase in Doubtful Accounts

Provisions for doubtful debts amounted to (79,101) thousand Saudi Riyals in 2018G and (90,325) thousand Saudi Riyals in 2019G, while they amounted to (97,825) thousand Saudi Riyals as in 2020G. In the event of a slowdown in economic growth, individuals and companies may not be able to pay their debts. The credit history of many potential customers, whether individuals or small and medium enterprises (SME), indicates that they are exposed to risks, which will increase the possibility of an increase in the value of doubtful debts. In such cases, the Company will either resort to the judiciary, which will cost the Company additional expenses, which means that the Company will incur losses resulting from the rescheduling of debts, or it will raise the value of the provisions that it must set aside to cover the value of doubtful debts. This will have a negative impact on the Company's profits, financial condition, results of operations and future prospects.

### 2-1-10 Risks related to Information Technology (IT) Systems and Cyber Security

The Company's performance and operations depend to a large extent on the effectiveness of its information technology systems and its ability to achieve the Company's goals and complete a large number of transactions without delays, errors or fundamental malfunctions. The Company relies on its own technical system to handle most of its products and operations. The Company uses a number of IT systems to manage and operate its business including, but not limited to, financing, credit, follow-up, quality, accounting and financial aspects.

The Company's IT systems are vulnerable to damage due to electronic viruses, unexpected disasters, hack attacks or electronic piracy, hardware or software failures, fluctuations in the electric current and other similar disturbances and malfunctions. If these systems fail to work at the expected level for any reason, or any security breach occurs, without having the Company guarantee that its business will not be disrupted or negatively affected in the event of a partial or total malfunction in any of its main systems, this will lead to a disruption of the Company's business, reducing the effectiveness and efficiency of its operations, increasing costs and losing important information, which will negatively affect the integrity of the Company's electronic infrastructure, business, results of operations, financial position and future prospects. Also, any weakness in the internal control system may cause operational or financial errors or cases of financial fraud or others, and that will negatively affect the Company's profitability and reputation.

There is no guarantee or insurance coverage that the Company's business will not be disrupted or negatively affected in the event of a partial or total malfunction or failure in any of the major information technology systems, or in the event the Company is exposed to electronic attacks that may harm its electronic (cyber) security. Cyber-attacks or malfunctions may also result in the Company losing some or all data of transactions concluded by the Company prior to the occurrence of such cyber-attacks or malfunctions.

The digital society has high expectations for a flawless customer experience, uninterrupted continuity of services, and effective protection of personal and sensitive data. E-services are also strategically important to the public and private sectors and to the economy. This requires the protection of information and transactions of a sensitive nature, thus emphasizing confidence in the finance sector as a whole in the Kingdom. Accordingly, the Saudi Central Bank has adopted rules to enable the financing institutions regulated by the Bank to effectively identify risks related to electronic (cyber) security and to address and manage these risks correctly and effectively, provided that compliance with them will be in stages, in order to maintain the protection of information and electronic services. The Saudi Central Bank also obligated all financial companies regulated by it to start adopting these rules according to the stages mentioned in them. Therefore, the Company must adopt and implement these rules. Although the Company is committed to the mandatory terms as of the date of this prospectus, there is no guarantee that the Company will be able to continue to achieve the other stages required in these rules, which will affect the continuation of its license from SAMA and as such will adversely affect the Company's operations.

### 2-1-11 Risks related to Third Party Services

The Company contracts with third parties service providers from time to time, to include, asset valuation, legal advisory services, collection agents, internal audit work, in addition to other services such as maintenance of information technology systems and devices and other support services. The Company's ability to control the quality and mechanism of provision of services by third party service providers is limited, and the Company may be liable for any failure of services resulting from the actions of service providers. The Company does not guarantee its success in obtaining continuous and high-quality services from third-party service providers, and the Company's business, reputation and results will be affected as a result of any defect in the services it obtains from service providers or other parties that are used.

### 2-1-12 Risks Related to Credit Ratings

Credit ratings are an important factor in determining the cost of financing. Credit ratings reflect the opinions of rating agencies of companies in terms of the strength of the financial condition, operational performance, strategic position and ability to meet obligations. Some factors that affect credit ratings may be beyond the control of the companies.
Currently, the Company is not rated by any credit rating agency, and if it becomes required to obtain a credit rating in the future, the rating may change from time to time either down or up, and if the credit rating drops, this will lead to increasing financing costs and negatively affecting the Company's liquidity. It would be possibilite that lenders will impose additional terms and conditions on any financing or refinancing agreements that the Company concludes in the future, which will affect the Company's profit margins, business, results of operations, cash flows and financial condition.

### 2-1-13 Risks related to Financial Leverage

There are a number of important factors that may contribute to the Company's ability to increase financial leverage, such as the low cost of financing and obtaining a high credit rating from credit rating agencies (in case it obtains a credit rating in the future). In the event that the Company's financial leverage increases as a result of the above-mentioned reasons or other reasons, the Company may not be able to fulfill its obligations in times of financial crisis, which will negatively affect the Company's business, financial condition, results of operations and future prospects.

The increase in financial leverage could also pose a threat to the Company's general financial condition and solvency, as recorded losses could lead to an increase in the Company's liabilities compared to its assets, which would have a negative impact on the Company's financial condition, and thus increase the cost of financing from banks. This is in addition to reducing the credit rating from credit rating agencies (in the event that it obtains a credit rating in the future), and thus will negatively affect the Company's profitability, business, financial condition, results of operations and future prospects.

### 2-1-14 Risks related to the Risk Management Systems, Policies and Procedures

Risk management policies are based on observation of historical market behavior, therefore, these policies may not be able to accurately predict potential risks in the future which may be greater than those inferred through historical means. In light of the lack of available data, this information may not be accurate, complete, up-to-date or have not been properly evaluated in all cases. The Company's policies, procedures and internal controls may not be fully effective in all circumstances and conditions, which will lead to the Company obtaining insufficient information to assess its exposure to risks on a correct basis. Therefore, the high level of risks that the Company is exposed to due to that may have a negative and material impact on the Company's financial condition and results of operations.

### 2-1-15 Risks related to a Gap Between Maturity of Assets and Liabilities

The Company faces the risk of a liquidity gap due to the maturity of its assets and liabilities on mismatched periods. The Company covers part of the financing requirements through medium and short-term loans. In contrast, most of the loans granted by the Company to its customers are long-term loans. Consequently, the Company's inability to obtain additional credit facilities or renew the existing credit facilities in a timely and cost-effective manner, which will lead to a gap between the maturity of assets and liabilities, and this in turn will negatively affect the Company's operations, profitability, financial position, results of operations and future prospects.

Also, the early repayment of loans by customers will lead to a gap between the maturity of assets and liabilities, which will affect the Company's operations, profitability, financial condition, results of operations and future prospects.

### 2-1-16 Risks Related to Insurance Coverage

The Company maintains various types of insurance policies to cover its business and assets. However, the Company may not have all the optional insurance policies which are important to its business and assets, or it may not have sufficient insurance coverage in all cases, or it does not cover all the risks that the Company may be exposed to. It is also possible that events may occur in the future against which the Company is not insured in a way that covers potential losses, or it may not be insured against them at all. There is no guarantee that the Company's insurance policies will continue to be available on commercially acceptable terms, or available at all. Any of these events, circumstances, or the occurrence of an uninsured incident for the Company will adversely and materially affect the Company's business, assets, financial condition, business results, and future prospects (for more details about the insurance policies, please see Section 8-12 "**Insurance Policies**").

### 2-1-17 Risks associated with Seasonal Factors related to the Company's Revenues

The nature of the Company's operations, in general, may make it vulnerable to seasonal fluctuations, especially during periods of summer vacation, official holidays and Eids. Consequently, the Company's revenues may be affected by seasonal fluctuations and changes in supply and demand for its services, which will have a material negative impact on the Company's business, results of operations and future prospects.

### 2-1-18 Risks related to Non-compliance with Nationalization Requirements

Compliance with the requirements of localization is a statutory requirement in the Kingdom, whereby all companies operating in the Kingdom, including the Company, are obligated to employ and maintain a certain percentage of Saudi employees among its total employees. Localization rates vary according to the companies' activities. It should be noted that the Company is currently committed to the requirements of localization and is classified as on the date of this prospectus in the Nitaqat program.

In the event of non-compliance with the localization requirements, the Company may face fines or penalties imposed by government agencies, such as suspending work visa applications, sponsorship transfer for non-Saudi workers, and being denied tendering and obtaining government loans. The Company may not be able to continue to employ and maintain the required percentage of Saudis, nor it may be able to employ the required number of Saudi or foreign employees without incurring additional costs, which will have a material negative impact on the Company's business, financial condition, results of operations and prospects (for more information, please refer to section (5-12-2) "**Nationalization**").

### 2-1-19 Risks related to Employee Misconduct and Errors

The employee's misconduct or error may cause the Company to breach the system, which leads to the imposition of penalties on the Company by the competent authority that vary according to the misconduct or error, bearing financial responsibility or damaging the Company's reputation significantly. Examples of misconduct and error include:

- Misuse of customer data.
- Engaging in cheating, misrepresentation, fraud or deception, or other disruptive or improper practices while marketing the Company's products and services.
- Failure to comply with applicable internal regulations or controls and procedures, including failure to properly document transactions in accordance with the Company's standard documents and processes (or failure to take appropriate legal advice in relation to non-standard documents, as required by Company's internal policies), or failure to obtain permission or necessary internal authorization.
- Violation of the Company's professional conduct policy.

In the event of misconduct or errors by employees, this will have a material negative impact on the Company's reputation, business, financial condition, results of operations and future prospects.

### 2-1-20 Credit Risks

Credit risk is the failure of the customer to fulfill his obligation to the Company in accordance with the agreed terms and conditions, without the Company having sufficient guarantees to cover that obligation, and thus the Company incurs a financial loss that may be equal to the size of the obligation.

Credit risks increase as a result of the general deterioration in the local or global economic conditions or in the financial system in general. Any of these factors may affect the value of the Company's assets and the possibility of its collection, and require the Company to increase provisions for bad and doubtful debts against the value of financing assets and guarantees.

If the Company fails to maintain the credit quality of its financing operations, the provisions that cover the losses of the financing operations will increase and the levels of default and debt write-off will rise, which will have a negative impact on the Company's business, financial condition, results of operations and future prospects.
When the Company is in the process of making a decision about whether to extend credit to clients, the Company relies on information provided by clients and service providers, as well as financial statements and other financial statements of the SME segment. The Company may also rely on certain representations about the accuracy and completeness of that information, while relying on the reports of independent auditors in relation to the financial statements. In the event that the Company is provided with inaccurate, misleading or materially incomplete information about the credit status of the concerned customer, this may have an impact on the Company's ability to manage credit risk effectively, which will adversely affect the Company's business, financial condition, results of operations and future prospects.

### 2-1-21 Operational Risks

Operational risks and losses are caused by fraud (external or internal), employee errors, failure to properly document transactions in accordance with regulatory requirements and internal company policy, failure to obtain necessary internal approvals, failure to comply with regulatory requirements and best practices in sector, technical systems and devices malfunctions, natural disasters, or external systems failure. The occurrence of any of these events will have a negative impact on the Company's business, financial condition, results of operations and future prospects. In the event that the Company loses any important documents related to customer transactions or regulatory approvals, this will adversely affect the Company's operations, possibly affecting the Company's ability to comply with the relevant regulatory requirements, and that will negatively affect the Company's business, financial condition, results of operations and future prospects.

### 2-1-22 Risks related to Financing Agreements

The Company has entered into several financing and credit facilities agreements with the concerned banks (please refer to section (12-7-6) "**Financing Agreements**" of this prospectus) and there is no guarantee that the Company will be able to fulfill its obligations on the due dates. Any default will be considered a violation of the concluded agreements and the banks will have the right to cancel or terminate credit facilities and require the Company to pay the entire indebtedness immediately, which will negatively affect the Company's business, financial condition, results of operations and ability to borrow, finance and implement its future plans.

### 2-1-23 Risks related to Reliance on Senior Management and Key Personnel

The Company's current operations, future plans and success depend on the expertise and competencies of its senior management and key personnel who started working with the Company long ago, including senior executives and other qualified employees, who have extensive experience and strong relationships in real estate services. There is no assurance that the Company will be able to guarantee the continuity of the services of its employees or to raise the level of their skills. The Company also operates in a specialized and accurate field and relies on rare competencies and skills with high education and training and precise specialized expertise. The Company relies on a rigorous recruitment process to fill these positions, which requires the approval of the Saudi Central Bank to accept candidates for these positions.

### 2-1-24 Risks related to the Protection of the Company's Trade Name and Intellectual Equity

In marketing its services and products, the Company relies on its name that is reflected in its logo, which supports its business and its competitive position, and gives it a clear distinction in the market among customers. The Company owns two trademarks registered in its name, one is with registration certificate No. 1442010776 and its protection is valid until 02/04/1452H (corresponding to 02/08/2030G), and the other one is with registration certificate No. 1442010779 and its protection is valid until 02/04/1452H (corresponding to 02/08/2030G). In the event that the Company fails to protect its trademark effectively when renewing the registration certificate, or track similar marks, this will negatively affect its value, and that will be adversely reflected on the Company's business, results of operations, financial condition and future prospects.

### 2-1-25 Risks related to the Company's Ability to Obtain Future Financing

The Company's ability to obtain appropriate financing depends largely on various internal and external factors that may be required by lenders or imposed by general economic conditions. As for the Company's internal factors, they include, but not limited to, the Company's financial condition, the size of the existing debt compared to the size of its assets and equity, which is known as the level of the financial leverage, the Company's expected cash flows, the Company's credit position and business results, willingness of the financiers to finance the sectors in which the Company operates, and the Company's ability to provide sufficient guarantees to obtain the required facilities.

The Company's ability to obtain financing also depends on other external factors, including, but not limited to, the prevailing interest rates at the time of obtaining financing and the general economic situation, including inflation, consumer purchasing power, real estate price trends, the success of government programs related to housing, the situation of the financial markets, cash available to the financiers and commercial banks and the directions of the Central Bank. The Company may not be able to obtain the necessary funding to finance its future business in whole or in part, which fundamentally affects the Company's ability to implement its strategy and achieve its goals. Also, the Company's access to the necessary financing but on non-preferential terms or at a cost higher than the Company's expectations will limit business related factors and cash flows. Accordingly, the inability of the Company to obtain financing, or obtain it under conditions not suitable for it, will have a negative and material impact on the Company's business, results of operations, financial condition and future prospects.

### 2-1-26 Risks related to the High Cost of Financing

The Company depends in its business on obtaining financing, and the profit margins related to financing depend largely on the availability of liquidity with the lenders and the bank interest rates linked to the SAIBOR index. For example, arranging Murabaha financing depends on the profit margin being built on the basis of fixing the SAIBOR price for long periods that extend throughout the financing period granted to the Company, which may result in a higher cost of financing than other forms of financing in which the SAIBOR rates are variable according to the prevailing prices in the banking sector or other forms of financing in which SAIBOR rates are fixed for short periods.

In addition, the increase in US interest rates, which usually directly affects SAIBOR prices, due to the Riyal's exchange rate being pegged to the dollar, and the expansion of government bond and sukuk programs, may cause local interest rates to rise. The high cost of financing and the Company's inability to provide suitable financing alternatives or pass the effects of the rise to its customers through its financing products will negatively and fundamentally affect the Company's business, results of operations, financial condition and future prospects.

### 2-1-27 Risks related to the Implementation of Guarantees Provided by Clients

The Company's terms of financing with its clients include clauses on which clients provide guarantees to cover their obligations to repay the financing provided to them by the Company, including, but not limited to, order bonds and personal guarantees.

Accordingly, in the event that the Company is unable to implement the guarantees provided by clients or in the event of a change in the statutory tools granted to the execution judges, such as retention, suspension of services, travel bans, etc., in order to implement the guarantees provided by clients, this will cause a negative and fundamental impact on the Company's business, results of operations, financial condition and future prospects.

### 2-1-28 Risks related to the Impairment of the Value of Assets Provided as Collateral

The Company's operations are focused on providing real estate financing to clients, and accordingly, all facilities and loans provided by the Company are secured by a 100% real estate mortgage. In all cases, the value of certain types of collateral may decrease due to operational risks, the nature of the asset and negative economic and market conditions. The Company may be exposed to potential losses due to the decrease in the value of the assets secured in its favor or due to the delay in liquidating such guarantees when borrowers default, which will have a negative impact on the Company's business, financial condition, results of operations and future prospects.

### 2-1-29 Risks related to Clients' Default and Inability to Pay

The Company's clients of small and medium enterprises may fail to fulfill their obligations towards the Company for several factors, such as a bankruptcy reason, imposition of new conditions by legislative authorities for the sectors operating in, intense competition, loss of contractual relationships and other effects that clients may not be able to quickly adapt. This will lead to pressure on their profit margins and liquidity and increase their operating costs so that they face difficulties in paying their obligations to the Company.

The Company's individual clients may also be unable to fulfill their obligations towards it for several factors such as the loss of all or some sources of income, changes to incentives and allowances, or a decrease in salaries and labor benefits.

On 07/12/1439H (corresponding to 18/08/2018G), the application of the bankruptcy system issued by Royal Decree No. (M/50) dated 28/05/1439H (corresponding to 14/02/2018G) began. The system aims to regulate bankruptcy procedures such as preventive settlement, financial reorganization, liquidation, and preventive settlement of small debtors, in addition to financial reorganization of small debtors, liquidation of small debtors, in addition to administrative liquidation. It is possible that some of the rules of the bankruptcy system apply to a segment of the Company's individual clients and they constitute the largest client base. This would hinder the Company from collecting its dues and crowding out other creditors in order to collect its dues and thus not recovering all its debts, which will affect the Company's business, financial condition, results of operations and future prospects.

## 2-2 Risks related to the Market, Industry and Regulatory Environment

### 2-2-1 Risks related to Fluctuations in the Real Estate Market

The Company's profitability depends mainly on real estate activity and the increasing demand for real estate financing products. The real estate sector in the Kingdom has witnessed several fluctuations, whether in real estate prices or rental rates, as a result of major economic factors, including those related to government policies that support housing and reduce dependence on oil resources. The Company's business is directly affected by these fluctuations, as the decrease in demand for real estate products without the Company's expectations leads to losses or a reduction in its profit margins. Accordingly, unfavorable fundamental fluctuations in the real estate sector will negatively and materially affect the Company's business, expectations, results of operations, financial condition and future prospects.

In addition, unfavorable fluctuations in real estate prices, or any other unfavorable economic conditions in the real estate sector, may result in customers' reluctance to purchase real estate or invest in. This include postponing the purchase or the investment decision until market stability, and this would constitute a pressure on the Company to reduce its financing prices, which would negatively and fundamentally affect its business, prospects and future results of operations.

### 2-2-2 Risks related to Anti-money Laundering and Terrorist Financing and Other Relevant Regulations

The Company must comply with the laws and regulations of combating money laundering and terrorist financing and other relevant regulations. These laws and regulations require the Company to, among other things, adopt and implement "know your customer" policies and procedures and report suspicious transactions to the relevant authorities. The Company cannot guarantee that its systems and policies in place to monitor and prevent the use of its network for money laundering activities by individuals or organizations related to terrorism or any other illegal activities will be strong enough to ensure the permanent compliance of the Company with all such different laws and regulations. Any future claims for breach of such laws or regulations may result in fines and penalties. Also, a breach or even allegations of violations may have a negative impact on the Company's reputation, and any of these factors will have a negative impact on the Company's business, financial condition, results of operations and future prospects.

### 2-2-3 Risks related to Litigation Proceedings

In the course of carrying out its business, the Company may be exposed to issues and lawsuits related to its operations in general. The Company does not guarantee that there will be no dispute between it and other parties it deals with, which may lead to filing cases with the competent judicial authorities, whether from or against the Company. As a result, the Company may be subject to lawsuits from government agencies and departments and investigations, including in the context of new legislation on the sector in the Kingdom. Of course, the Company cannot anticipate the results of these claims if they occur and does not guarantee that these claims will not have a material impact on its business, financial condition and results of operations. Also, the Company cannot accurately anticipate the size of the cost of the lawsuits and judicial procedures that it may institute or be instituted against it or the final results of those lawsuits or judgments issued in them and the compensation and penalties they include. Therefore, any negative results of such cases will adversely affect the Company.

The Company has fifty-four (54) claims brought before the Committee for the Resolution of Violations and Financing Disputes, where the Company is a defendant. The claims were raised primarily to correct some of the terms of their agreements with the Saudi Home Loans Company. These claims are not specific financial claims, as their purpose is to modify some of the terms of the financing contracts concluded with the Company. The Company filed 144 real estate eviction lawsuits against defaulting clients. In addition, the Company holds 185 promissory notes amounting to 89,492,876 Saudi Riyals, which are under processing before the Execution Court. For more information, see Table No. (12-13) ("**Summary of the cases pending against the Company before the Committee for the Resolution of Violations and Financing Disputes as on 28/06/2021G**").

(For more details, please see Section No. 12-14) ("**Claims and Litigation**") Since the Company has dealings with many parties, it is subject to the risk of filing lawsuits from different parties, including financing clients, contracting parties, regulatory agencies, employees or operators and owners of real estate used by the Company.

Also, the judgments and decisions issued in these lawsuits, if they are not in favor of the Company, will result in the Company bearing significant costs, which will have a negative and material impact on the Company's business, operations, financial condition and future prospects (for more details about the Company's lawsuits, please see section (12-14-3) "**Lawsuits**").

Also, the Company may file lawsuits, claims and other judicial procedures to recover amounts from its customers. Such disputes may be about large sums, and there is no guarantee that the outcome of such disputes will be in the interest of the Company. Therefore, if the Company loses any dispute or fails to allocate the amounts resulting from the dispute, this will have a negative impact on its business, financial condition, results of operations and future prospects. Moreover, judicial procedures, execution of judgments and allocating the amounts to be paid to the Company may take a long time and great cost, which will adversely affect the Company's profits, financial condition, results of operations and future prospects. For more details, please see the Legal Information section.

### 2-2-4 Risks related to Titledeeds Register

The Company faces risks related to the possibility of canceling some real estate title deeds, which were financed by the Company, by the competent authorities, in case that those Sukuk were obtained in an irregular manner or have a legal defect as decided by those authorities.

Accordingly, in the event of any risks resulting, this will have a negative and material impact on the Company's business, results of operations, financial condition, and future prospects.

### 2-2-5 Risks Associate with the Interpretation of Sharia Principles related to Lease Contracts before the Company obtains a License to Practice Real Estate Finance Activity from the Central Bank of Saudi Arabia

The Company offers financing products that are compliant with the provisions of Islamic Sharia by getting them reviewed and approved of the Shariah Board of the Company. All these products are subject to the review and approval of the Shariah Board of the Company. The Shariah Board interprets the terms of Islamic finance contracts such as leasing in accordance with the rules and methodological principles of Islamic Sharia. While the various Islamic schools of thought agree on the general methodology and basic principles for interpreting the jurisprudential rules of transactions, they may differ on the detailed rules.

### 2-2-6 Risks associated with Related Party Transactions

In the course of its normal business, the Company deals with related parties such as members of the Board of Directors, members of the executive management, their relatives and Substantial Shareholders. The volume of contracts and transactions with related parties amounted to about 131.9 million Saudi Riyals in 2018G, 144.4 million Saudi Riyals in 2019G, and 95.0 million Saudi Riyals in 2020, and 42.8 million Saudi Riyals as on June 30, 2021G. In the event that transactions and agreements with related parties are not carried out in the future on a purely commercial basis, this will negatively affect the Company's business, financial condition, results of operations and future prospects (for more details about transactions with related parties, please refer to Section (12-10) ("**Transactions with Related Parties**.").

### 2-2-7 Risks Related with Difficulty in Liquidating Real Estate Investments

Since real estate investments in general are long-term investments, it is difficult to liquidate them quickly without affecting the price of the property. The Company maintains a portfolio of real estate assets, which constitute a guarantee for its financing products. In the event that the Company's client default, especially if that happens suddenly or collectively as a result of general economic conditions, it may be difficult for the Company to liquidate its properties related to the contracts of the defaulting clients at the appropriate prices and within a short period. This will adversely and fundamentally affect the Company's business, expectations, results of operations, financial condition and future prospects.

### 2-2-8 Risks related to the Company's Operations that are Affected by Economic Risks in the Kingdom

The Company's assets, operations and customer base are located in the Kingdom, which is considered one of the emerging markets. Accordingly, the Company may be affected by the general financial and economic conditions prevailing in the Kingdom and the Middle East, and the level of economic activity in the Kingdom in particular. The income from oil still plays a pivotal role in planning and economic development in the Kingdom, despite the continuous application of the policy of diversifying sources of income in the Kingdom in order to support the contributions of other sectors to the GDP. Therefore, any fundamental decline in oil prices may lead to a decrease in government spending, which may significantly slow down or impede the growth of the economy in the Kingdom. This may negatively affect the overall economy of the Kingdom and all its sectors, which will adversely affect the Company's business, results of operations, financial position and future prospects.

### 2-2-9 Risks related to the Competition and its intensity

The nature of the Company's activities makes it subject to great and increasing competition from banks and other financing companies. The Company faces competition from local and foreign banks and real estate financing companies operating in the Kingdom. According to the website of the Saudi Central Bank, the number of companies licensed to work in real estate financing in the Kingdom as at the date of this prospectus is six real estate financing companies and 14 banks.

The Company's success in competing with these companies depends on a number of factors, including the strength of its financial condition, geographical spread, ease of access to potential customers, adherence to Islamic Sharia principles, specifications of financing plans offered to customers when compared to what banks and other financing companies offer, quality of guarantees, flexibility and ability to adapt to new market trends (e.g. subsidies and loans). Designing appropriate financing plans that meet the ambitions and goals of potential clients, including rapid provision of financing, maintaining an excellent reputation, using social media along with using the most effective marketing techniques, are all important elements to support the success of the Company and achieve its goals. Therefore, the Company will be affected if it is not able to keep pace with its other competitors with regard to the prices and quality of its products and services. This will negatively affect its business, financial condition, results of operations and future prospects.

### 2-2-10 Risks related to Compliance with the Companies Law, Corporate Governance Regulations and Central Bank Regulations

The Company, in its management and conduct of its various business and activities, is subject to the provisions of the Companies Law, issued on 28/01/1437H (corresponding to 11/11/2015G). The Companies Law and the Corporate Governance Regulations also impose some new requirements related to regulation and corporate governance that the Company must comply with, and this requires the Company to take some measures to comply with these new requirements. The Companies Law and the Corporate Governance Regulations also imposed stricter penalties for violating their mandatory provisions and rules (such as the requirements of the Corporate Governance Regulations in relation to the management of listed companies, as well as the formation of an independent review committee that reports to the Company's general assembly). Thus, it is possible for the Company to be subjected to such penalties of financial fines or imprisonment or both. For example, the Companies Law stipulates that every manager, official, board member, auditor or liquidator who records false or misleading data shall be punished with imprisonment for a period not exceeding 5 years and a fine of no more than five million Saudi Riyals. In the event of non-compliance with these provisions and rules, this would adversely and materially affect the Company's business, financial condition, results of operations and future prospects. The Company is also subject to the monitoring and regulations of the Saudi Central Bank and is committed to following its instructions and guidelines. The Central Bank conducts several inspection tours to ensure the Company's compliance. Non-compliance of Company or its inability to meet the specific conditions and rules may lead to the suspension of its operations or failure to obtain any approvals required by the Company.

### 2-2-11 Risks related to White Land Fees

The Saudi Council of Ministers has approved the white land fee system in some major cities in the Kingdom, according to which owners of vacant plots of land allocated for residential or commercial use in specified cities are obligated to pay a tax of 2.5% of the land value each year on lands whose area exceeds specific criteria in accordance with the requirements of this system. The Company may be subject to this system in the real estate assets it owns by guaranteeing or settling some non-performing loans. Accordingly, the Company's inability to dispose of these lands that it owns or may own in the future and fees apply to them, will lead to the imposition of white land fees on the Company, which will have a negative impact on the Company's business, financial condition, results of operations and future prospects.

### 2-2-12 Risks related to Real Estate Tax

Real estate tax, which imposes a tax of 5% on any disposal of any real estate in the Kingdom, has exclusion or exemption controls issued. Since the Company carries out its business in real estate financing, a large part of its operations has been affected by this tax, which increases the expense on the end consumer unless he is among the beneficiaries of the exemption. Due to the recent application of this tax, any violation or wrong application of it by the Company's management or employees will expose the Company to fines or penalties or lead to the withdrawal of its license from the Central Bank or damage its reputation. This will increase costs and operational expenses or even stop its operations, and possibly reduce the competitive position of the Company and the level of demand for its products and services, which will have a negative impact on its business, financial condition, results of operations and future prospects.

### 2-2-13 Risks related to Changing the Mechanism for Calculating Zakat and Income

The Kingdom issued the value-added tax system, which entered into force on January 1, 2018. This system imposes an added value of 5% on a number of products and services, according to what is stated in the system. The Ministry of Finance also recently announced an increase in the value-added tax rate to 15%, starting from July 1, 2020G. Due to the recent application of this system and the announcement of the increase in the declared value added tax rate, it cannot be excluded that any violation or wrong application of value added tax systems by the

Company's management or employees may increase the costs and operational expenses that the Company will bear or expose the Company to fines and penalties or damages the Company's reputation.

### 2-2-14 Risks related to the Imposition of New Laws and Regulations that Affect the Company's Implementation of its Operations

The Company and its business are subject to the supervision of a number of government agencies in the Kingdom, including but not limited to the Saudi Central Bank, the Ministry of Commerce, the Ministry of Investment, Municipalities, Civil Defense, the Capital Market Authority (after listing) and others. The Company is therefore subject to the risks of changes in the laws, regulations, circulars and policies in the Kingdom, including those regulations and policies related to taxation. The legislative and regulatory environment in the Kingdom is witnessing the issuance of a number of laws and regulations, meaning that it is more vulnerable to change and development. The costs of complying with these regulations are high. In the event of changes to existing laws or regulations or the promulgation of new laws or regulations relating to financing, the Company may, for the purposes of complying with these regulations, change its services, or make changes to its financing products to meet the requirements of these laws. This will result in the Company incurring additional unexpected financial expenses, which will lead to a negative impact on the Company's operations, financial condition and prospects.

The business of the Company requires that it adhere to the applicable laws and regulations on an ongoing basis. Accordingly, if the Company is not able to comply with these laws and regulations repeatedly, it will be subject to fines or penalties imposed by the competent supervisory authorities, which will lead to a reduction in its revenue growth, suspension of its work or suspension of its licenses. In addition, the new laws, regulations and instructions will have an impact on the Company's cash flow, collection and lending operations, which will adversely affect its operations, financial condition and future prospects.

### 2-2-15 Risks related to Natural Disasters and Epidemic Outbreaks

Natural disasters beyond the Company's control may significantly harm the Company, its subsidiaries, and its customers. Any damage to any of the Company's branches, employees or customers, whether as a result of floods, earthquakes, storms, or any other natural disaster, may cause the Company to incur significant costs, and will affect the ability of customers to pay the dues. Accordingly, the Company will face difficulties in carrying out its operations. and collecting its dues, and thus reducing its future operating results. In the event of natural disasters and their damage to the Company, this will have a negative and material impact on the Company's business, results of operations, financial condition and future prospects.

### 2-2-16 Risks related to the Future Growth of the Non-banking Finance Sector

The growth rate of the non-bank financing sector in the Kingdom may not be high and sustainable according to the Company's current expectations. The growth and development of the non-bank financing sector depends on a number of factors beyond the Company's control. If these factors have a negative and material impact, they will adversely affect the Company's business, financial condition, results of operations and future prospects.

## 2-3 Risks related to the Offered Shares

### 2-3-1 Risks related to the Market and Potential Fluctuation and Volatility in the Share Price

The share price at the offering may not be an indication of the price at which the shares will be traded after the end of the offering, and the subscribers may not be able to resell the Offer Shares at the offering price or at a higher price, or they may not be able to sell them at all.

The share price in the market may be adversely affected after the offering by many factors, including:

- Negative changes in the Company's operational performance and improvement in the performance of its competitors.
- Actual or expected fluctuations in quarterly or annual operating results.
- The public's reaction to the Company's press releases and other public announcements.
- The Company's or its competitors' performance is different from analyst expectations.
- Resignation of important employees of the Company.
- Important and strategic decisions by the Company or its competitors, and changes in business strategy.
- Changes in the regulatory environment that affect the Company or the financing sector.
- Changes in the approved accounting rules and policies.
- Occurrence of terrorist or hostile acts or civil disturbances affecting a wide range.
- Occurrence of natural disasters and other disasters.
- Changes in general market and economic conditions.

The occurrence of any of these risks or factors may lead to a significant decrease in the share price.

The stock market, in general, witnesses from time to time, significant fluctuations in price and trading volume. Market fluctuations may lead to a sharp decline in share prices, which may cause a decrease in the value of the shares. This will negatively affect the investments in the Company's shares by the investors.

Therefore, there is no guarantee that the market price of the Company's shares will not be lower than the offering price. If this happens after the investors have subscribed to the new shares, this subscription may not be canceled or modified. Thus, investors may experience losses as a result. Also, there is no guarantee that the shareholder will be able to sell his shares at a price equal to or exceeding the offering price after the subscription.

### 2-3-2 Risks related to Lack of Experience in Managing Listed Joint Stock Companies

The Company has never listed its shares, and since its inception, it has been a private company. Therefore, members of the Company's senior management may not have practical experience in managing a listed company and complying with the requirements imposed on listed companies, especially with regard to the capital market system, its Implementing Regulations and Listing Rules. Any failure to comply with applicable obligations in accordance with the laws, regulations, and instructions relating to listed companies, including, but not limited to, the rules on the offering of securities, continuing obligations, Listing Rules and corporate governance regulations may expose the Company to fines, suspension or cancellation of the listing, which will have a negative impact on the Company's business, financial condition, results of operations or future prospects.

### 2-3-3 Risks related to Lack of Demand for the Company's Shares

There is no guarantee that there will be sufficient demand in the market for the offered shares after the offering is completed and trading begins in the market, which may negatively affect the share price.

### 2-3-4 Risks related to the Actual Control by the Current Shareholders after the Offering

After completion of the offering process, the current shareholders will collectively own (70%) of the Company's shares. As a result, thirty million (30,000,000) shares will be listed and this will represent (Thirty percent (30%)) of the Company's capital. Therefore, the existing shareholders, together or with other shareholders, will be able to control decisions and actions that require the approval of the shareholders, including, but not limited to, mergers and acquisitions, selling assets, electing board members, increasing or reducing capital, issuing or not issuing additional shares, dividend distributing, or any change in the Company. In the event that circumstances arise in which the interests of the existing shareholders conflict with the interests of the minority shareholders (including underwriters), this may put the minority shareholders in a position not in their favor, and the existing shareholders may exercise their control over the Company in a way that materially affects the Company's business, financial condition, results operations and future prospects.

### 2-3-5 Risks related to the Absence of a Previous Market for the Company's Shares

Currently, there is no market for trading the Company's shares, and there may not be an active and liquid market for trading shares after the offering, and that market may not continue if it exists. In the absence of an active, continuous and liquid market, the share trading price will be adversely affected.

The subscription price was determined based on several factors, including the Company's past performance, future prospects of its business, the sector in which it operates, the markets in which it is located, and the evaluation of the Company's management, operations and financial results. There are various factors, including the Company's financial results, its general conditions in the field of financing services, the sector's economy and its regulatory environment and other factors that are beyond the Company's control, and which may lead to significant fluctuations in the price of the Company's shares and the liquidity available for trading them.

### 2-3-6 Risks related to Selling a Large Number of Shares in the Market

The sale of a large number of shares in the market after the completion of the offering process, or the existence of a perception that such a sale will occur, this will adversely affect the price of the shares in the market. Upon successful completion of the subscription process, Substantial Shareholders will be subject to a six-month lock-up period starting from the date of the starting the shares trading, during which period they will be prohibited from disposing any of the shares. However, in the event that any of the Substantial Shareholders sells a large number of shares after the expiry of the lock-up period or there is a perception that such a sale will occur, this will negatively affect the price of the shares in the market.

### 2-3-7 Risks related to the Distribution of Dividends and Restrictions Imposed by Financiers on the Distribution of Dividends

The decision to distribute dividends depends on a number of factors, including the Company's ability to generate future profits, the Company's financial condition, statutory reserve requirements, available credit limits, general economic conditions, cash flows, working capital requirements, capital expenditures, and approval by Financing Entities that require the Company under financing agreements to distribute profits exclusively in accordance with certain financial criteria or on condition of obtaining the prior approval of the financier, (please see section (12-7-6) ("**Financing Agreements**")), in addition to other factors subject to evaluation by the Board of Directors to announce dividends as it deems appropriate. Shareholders may not get any profit from investing in shares unless they sell them at a price higher than the purchase price. Thus, the Company does not guarantee in any way that it will have sufficient money for distribution or to declare dividends in the near future. In the event that the Company does not distribute dividends to the shareholders, the shareholders may not get any return on the investment in the shares except by selling the shares at a price higher than the purchase price. (For more details regarding the Company's dividend policy, please see section (7) ("**Dividends Policy**")).

### 2-3-8 Risks related to Issuance of New Shares in the Future

In the future, the Company may increase its capital by issuing new shares (after completing the statutory procedures, including obtaining the approval of the Saudi Central Bank, the Capital Market Authority, and the Extraordinary General Assembly) for the benefit of new investors or some of the existing shareholders. This may negatively affect the share price in the market and the reduce the percentage of shareholders' ownership in the Company in the event that they did not subscribe to the new shares at that time.

3

# Market Overview

# 3- Market Overview

## 3-1 Market Overview

### 3-1-1 Economy Overview

Since the launch of Vision 2030, the Kingdom of Saudi Arabia has taken many measures aimed at diversifying the economy and reducing dependence on oil. These reforms have led to an increase in confidence in the Kingdom's economic performance and move up of the Saudi Arabia's ranking by about 30 places in the World Bank's ease of doing business index, as it ranked 62 (according to the World Bank Group's Doing Business 2020 report). The government continues to implement economic and social reforms to achieve the goals of Vision 2030 with the help of several tools, including activating of the role of the Public Investment Fund (one of the largest sovereign funds in the world) and launching privatization programs to expand the participation of the private sector. It is expected that all these economic and regulatory developments will contribute to further facilitation, which will reflect positively on the business environment in the Kingdom, and thus will provide great opportunities for the growth of the real estate finance sector.

Table 3-1: Key Macroeconomic Indicators

| Indicator | 2015G | 2016G | 2017G | 2018G | 2019G | 2020G |
|---|---|---|---|---|---|---|
| GDP at current prices (SR billion) | 2,454 | 2,419 | 2,582 | 2,949 | 2,974 | 2,625 |
| GDP growth (annual growth rate %) | (13.5%) | (1.4%) | 6.8% | 14.2% | 0.8% | (11.7%) |
| Population (million) | 30.9 | 31.8 | 32.6 | 33.4 | 34.2 | 34.9 |
| GDP per capita (SR) | 78,987 | 76,083 | 79,177 | 88,271 | 86,892 | 74,763 |
| Budget Balance (SR billion) | (389) | (311) | (238) | (174) | (133) | (289) |
| CPI inflation (annual rate of change %) | 1.2% | 2.0% | (0.8%) | 2.5% | (2.1%) | 3.5% |
| Trade balance (SR billion) | 166.0 | 209.1 | 369.2 | 632.8 | 455.0 | 172.6 |

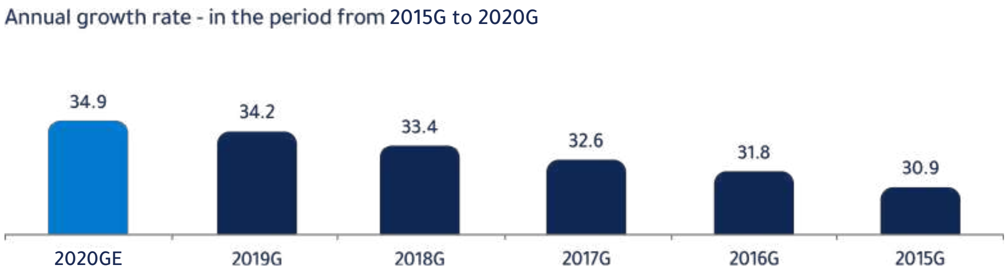
Source: Ministry of Finance, Saudi Central Bank, General Authority for Statistics

The Kingdom's vision also contributed to mitigating the effects of the pandemic on the local economy, which enabled it to record a better performance than expectations, despite that Brent crude prices recorded their highest historical fluctuations during the same period. Brent spot prices reached their highest level at $70.25 a barrel early January 2020, and then plunged to the lowest price of $9.12 per barrel in April 2020. Prices peaked at the beginning of the year after posting their biggest gains in three years in 2019 on positive economic conditions and an overall global growth.

### 3-1-2 Population Growth

The total population of the Kingdom of Saudi Arabia increased at a compound annual rate of 2.59% annually during the period from 2015G to 2019 to reach 34.2 million people in 2019G. The population of Saudi Arabia was 30.9 million in 2015G. The following graph shows the historical population census between 2015G to 2020G.

Figure 3-1: Population of the Kingdom of Saudi Arabia (in millions of people)

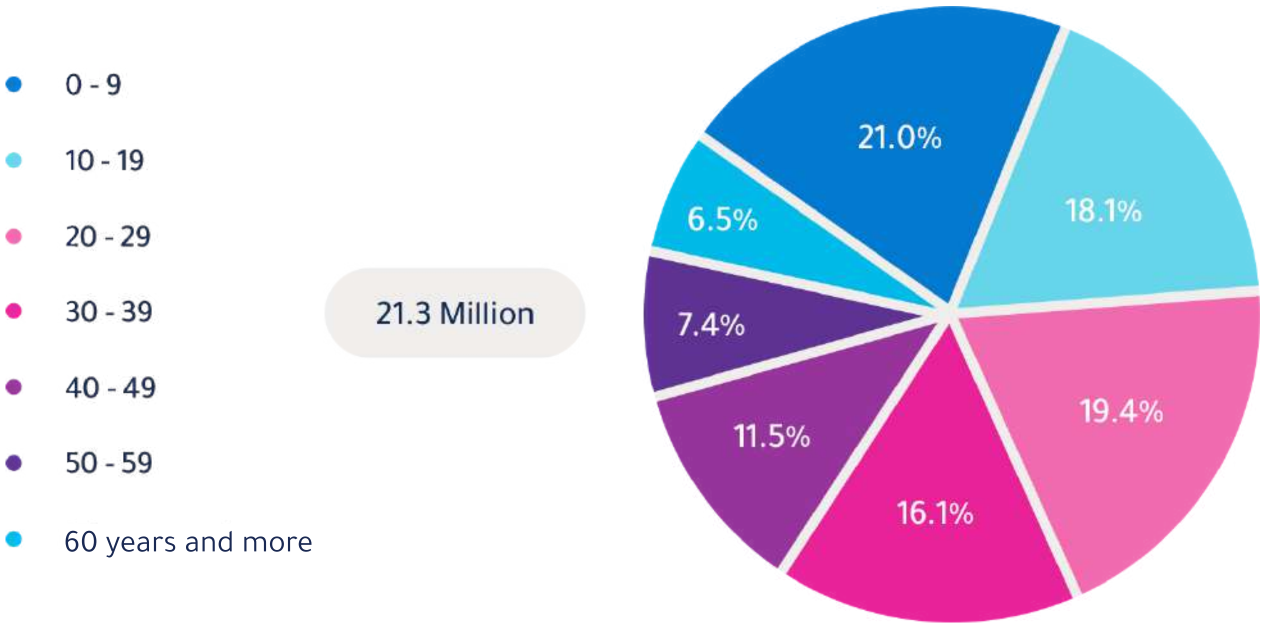



E means Estimated

Source: General Authority for Statistics, Kingdom of Saudi Arabia

The Saudi population in 2019 was estimated at approximately 62.2% of the total population in the Kingdom of Saudi Arabia. The Saudi population reached approximately 21.3 million people, of whom the proportion of males was 50.9%, and about 49.1% for females, while the number of the non-Saudis was estimated at about 37.8%. The Kingdom of Saudi Arabia also enjoys a young and developing demographic, which forms the basis for continued economic growth in the Kingdom in general and the real estate finance market now and in the future, where the percentage of the population under the age of forty reached 75% in 2019.

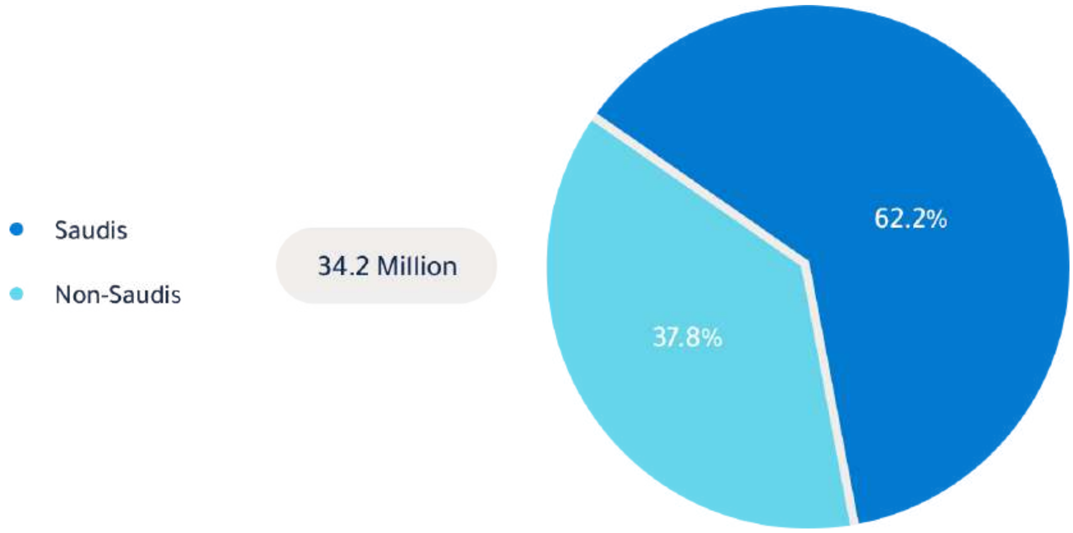
Figure 3-2: Saudi population by age group, 2019G




Source: 4SiGHT analysis based on the data of the General Authority for Statistics for the year 2019G

Among the thirteen Administrative Regions in the Kingdom of Saudi Arabia, the three main regions of Makkah, Riyadh, and Eastern Province contributed more than 66% of the total population in 2019G, while the contribution of the other ten regions was estimated at 34%

Figure 3-3: Population by Saudis and Non-Saudis, 2019G




Source: 4SiGHT analysis based on the data of the General Authority for Statistics for the year 2019G

### 3-1-3 Sauid Real Estate Financing Sector

The total number of banks operating in the Kingdom of Saudi Arabia reached 28 commercial banks, including 11 local Saudi banks and 13 branches representing foreign banks authorized to operate within the Kingdom. Also, a license has been granted to 4 foreign banks to conduct their operations in the Kingdom, until the end of 2020.

In addition, a total of 39 non-banking financial companies are authorized to operate within the Kingdom. Non-bank financial companies include one real estate refinancing company, one microfinance company, one contract registration company, 6 real estate financing companies, and 30 non-real estate financing companies.

With regard to the structure of the Saudi real estate finance market, it contains 6 real estate finance companies (as shown in the table below) in addition to 14 Commercial Banks that provide various types of real estate finance to include citizens and expatriates. All mortgage companies are closed Saudi joint stock companies, except for Amlak International Real Estate Finance Company. The following table shows the authorized and paid up capital share and approval dates for the real estate finance companies.

Table 3-2: Non-banking Companies Licensed to Provide Real Estate Finance

| Company Name | Paid-up Capital (SAR Million) |
|---|---|
| Saudi Home Loans Company | 1,000 |
| Amlak International Real Estate Finance Company | 906 |
| Bidaya Home Finance Company | 900 |
| Deutsche Gulf Finance Company | 575 |
| Dar Al Tamleek Company | 509 |
| Abdullatif Jameel Real Estate Finance Company | 200 |

Source: Audited Annual Reports of real estate finance companies; Saudi Central Bank

In addition to real estate finance companies, Commercial Banks, there are some other state-owned credit institutions operating in the same sector, such as the Real Estate Development Fund and the Saudi Real Estate Refinancing Company owned by the Public Investment Fund. The Kingdom of Saudi Arabia established the Real Estate Development Fund in 1974G to meet the needs and aspirations of the citizens of the Kingdom by financing residential real estate for individuals according to their requirements.

While the Saudi Real Estate Refinance Company is the latest institution established by the Saudi government (as part of the National Transformation Program 2020 and Vision 2030) to develop the housing finance market in the Kingdom. It is worth noting that the Saudi Real Estate Refinance Company was established in 2017 with an initial capital of 5 billion Saudi Riyals by the Public Investment Fund. It is a company licensed by the Central Bank of Saudi Arabia and offers financing to lenders to provide liquidity or exempt capital, allowing growth in the home financing market in order to expand the scope of home ownership for citizens.

### 3-1-4 Regulation and Supervision of the Real Estate Finance Sector

The Saudi Central Bank is responsible for issuing financing licenses in accordance with the provisions of the financing laws and regulations under the following laws:

1. Finance Companies Control Law
2. Real Estate Finance Law
3. Finance Leasing Law

The Real Estate Finance System contributes to the supervision of housing finance for citizens, by providing controls that guarantee the necessary guarantees for the practice of real estate finance business and protect the rights of all parties involved in the financing process.

The Saudi Central Bank licenses real estate finance companies to practice real estate finance activities in accordance with the provisions of the Finance Companies Control Law and its regulations. The Saudi Central Bank also takes the necessary measures to preserve the sector’s integrity, stability, and fairness of transactions. It also takes the necessary measures to promote fair and effective competition between real estate financing entities. The Saudi Central Bank continues to issue rules and instructions to regulate the real estate finance sector. The Saudi Central Bank also seeks to develop the real estate finance sector, and increase the efficiency of employees by regulating the obligations of real estate finance entities with regard to training human resources, improving their skills, and developing their knowledge.

The following are the main elements of the real estate finance regulations in the Kingdom of Saudi Arabia:

- A license is required from the Central Bank of Saudi Arabia, even before the entity engages in real estate finance business.
- The minimum required capital is 200 SAR Million.
- The legal form of the real estate entity should be a closed joint stock company with at least 5 founding shareholders.
- There should be a Board of Directors that is elected at a meeting of the general assembly and needs the approval of the Saudi Central Bank.
- The Saudi Central Bank supervises all real estate finance transactions and contracts.
- All mortgage products must be approved by the Saudi Central Bank.
- The Saudi Central Bank sets a limit on the amount of financing that a mortgage company can provide.
- It is not permissible for any of the real estate financing entities to engage in any activity that is not licensed by the Saudi Central Bank, including real estate investment, marketing, development and evaluation.
- The Ministry of Commerce and Investment, the Ministry of Justice and the Ministry of Housing collect data related to real estate market activity and publish this data periodically, including data related to the sale, rental and mortgage of real estate.

### 3-1-5 Trends and Developments in the Real Estate Finance Sector

The Ministry of Housing and the Real Estate Development Fund launched the "**Sakani**" program in 2018, with the aim of providing 300,000 homes and providing financing products in various parts of the Kingdom by the end of 2020. The program helped 319,429 Saudi families build homes by providing financing options and allocating land to provide homes by the end of October 2020, and this was a successful step as the Ministry met its commitment two months ahead of schedule.

The "**Sakani**" program allows Saudi citizens, for example, the possibility to obtain residential plots, self-constructed houses, ready-made housing units, and housing units under construction. "Sakani" digital platforms provide details of the location, characteristics and prices of residential units available for immediate and online booking. The program also offers Saudi citizens who own lands the possibility to obtain subsidized real estate financing to build their own homes. The program also allows citizens to obtain building permits within six months, begin construction within one year, and complete home construction within three years.

As part of the National Transformation Program 2020, being part of Vision 2030, the Saudi government aims to increase the pace of activity in the real estate market as part of an integrated plan to revitalize the economy and take the necessary steps to correct the real estate sector. As one of the key performance indicators of Vision 2030 is to increase the percentage of home ownership for citizens to 60% by 2020 and 70% by 2030, bringing the total sector to 1.2 million additional housing units by 2030, or an average of 120,000 units annually.

Among other indicators, there is another key performance indicator being the increase in the volume of real estate financing in relation to GDP from the current level of about 5% to the level of 10% of GDP. On the other hand, increasing the growth rate of the real estate finance sector from its current rate of 4% to 7% in 2020 is an additional key performance indicator for strengthening this sector within the Kingdom's Vision 2030.

In addition, the Government has also commissioned the Real Estate Development Fund (REDF) and the Saudi Real Estate Refinance Company to facilitate real estate financing. The Saudi Arabia-supported home financing program will cover three types of financing requests: building a unit, purchasing a built unit, or selling a unit prior to construction. The program serves housing subsidy recipients, as well as applicants who are on the REDF waiting list. The REDF launched the accelerated loan program for financing in partnership with a number of Saudi Commercial Banks, including Riyad Bank, Arab National Bank, Alinma Bank, Al Bilad Bank, Al Rajhi Bank, National Commercial Bank, Saudi Fransi Banque, and Al Jazira Bank, as well as real estate finance companies such as the Saudi Home Loans Company, Amlak International Real Estate Finance Company, Dar Al-Tamleek Company, in addition to Bidaya Home Finance.

### 3-1-6 Size of the Real Estate Finance Market

The total size of the Saudi real estate finance market amounted to 607 billion Saudi Riyals based on the mortgage loans due in favor of all mortgage service providers for the year 2020. Commercial Banks accounted for the largest part of the market, with a market share of nearly 70.5%, while the real estate finance companies contributed about 4%, and the Real Estate Development Fund represented the remaining 25.5%.

Table 3-3: Market size of the real estate finance in the Kingdom of Saudi Arabia- 2020G

| Source | Loans Disbursed (SAR Million) | Market Share (%) |
|---|---|---|
| Real estate finance companies | 23,524 | 3.88% |
| Commercial banks | 428,411 | 70.58% |
| Real Estate Development Fund | 155,018 | 25.54% |
| **Total** | **606,953** | **100.00%** |

Source: 4SiGHT calculations based on Annual Statistics from the Saudi Central Bank

### 3-1-7 Market Segmentation by Customer Type

The market segmentation by type of loan indicates that the retail sector accounted for approximately 81% of the market, while the corporate sector accounted for 19% of the loans paid in 2020.

Table 3-4: Market Segmentation by Customer Type- 2020G

| Customer Segment | Loans Disbursed (SAR Million) | Percentage of Total (%) |
|---|---|---|
| Retails sector | 490,356 | 80.8% |
| Corporate sector | 116,956 | 19.2% |
| **Total** | **606,953** | **100.0%** |

Source: 4SiGHT calculations based on Annual Statistics from the Saudi Central Bank

Data related to loans by type of customer shows that the retail sector increased from about 112.8 billion Riyals in 2010G to about 490.4 billion Riyals in 2020G, while the corporate sector increased from about 27.5 billion Riyals in 2010G to 116.5 billion Riyals in 2020G.

Table 3-5: The Size of the Real Estate Finance Market in the Kingdom of Saudi Arabia by type of customer: from 2010G to 2020G

| Customer Type | Loans (SAR Million) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010G | 2011G | 2012G | 2013G | 2014G | 2015G | 2016G | 2017G | 2018G | 2019G | 2020G | Compound Annual Growth Rate from 2010G until 2020G |
| Retail sector | 112,800 | 125,783 | 159,717 | 195,950 | 233,596 | 261,927 | 279,628 | 290,649 | 307,133 | 371,995 | 490,356 | 15.8% |
| Corporate sector | 27,522 | 28,605 | 35,291 | 46,025 | 62,725 | 84,767 | 92,108 | 92,359 | 101,063 | 102,285 | 116,596 | 15.5% |
| **Total** | **140,322** | **154,388** | **195,008** | **241,975** | **296,321** | **346,694** | **371,736** | **383,008** | **408,196** | **474,280** | **606,953** | **15.8%** |

Source: 4SiGHT calculations based on Annual Statistics from the Saudi Central Bank

### 3-1-8 Market Segmentation by Lender

The historical analysis for the period between 2010G to 2020G shows that the cumulative volume of outstanding loans according to the lender has grown by 15.8% during the same period. Loans provided by real estate finance companies witnessed the highest growth at 23.9%, followed by Commercial Banks with an annual growth rate of 21.7%, while loans provided by the Real Estate Development Fund grew at a compound annual growth rate of 7.2% during the same period.

Table 3-6: The size of the real estate finance market in the Kingdom of Saudi Arabia by lender: from 2010G to 2020G

| Source | Loans (SAR Million) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010G | 2011G | 2012G | 2013G | 2014G | 2015G | 2016G | 2017G | 2018G | 2019G | 2020G | Compound Annual Growth Rate from 2010G until 2020G |
| Real estate finance companies | 2,757 | 5,298 | 7,388 | 9,729 | 11,050 | 12,131 | 13,592 | 14,752 | 16,135 | 19,933 | 23,524 | 23.9% |
| Commercial Banks | 59,968 | 70,211 | 88,024 | 115,568 | 155,753 | 185,302 | 200,402 | 210,992 | 238,544 | 297,372 | 428,411 | 21.7% |
| Real Estate Development Fund | 77,597 | 78,879 | 99,596 | 116,678 | 129,518 | 149,261 | 157,742 | 157,264 | 153,517 | 156,975 | 155,018 | 7.2% |
| **Total** | **140,322** | **154,388** | **195,008** | **241,975** | **296,321** | **346,694** | **371,736** | **383,008** | **408,196** | **474,280** | **606,953** | **15.8%** |

Source: 4SiGHT calculations based on Annual Statistics from the Saudi Central Bank

### 3-1-9 Size of the Retail Sector in the Real Estate Market

According to data issued by the Saudi Central Bank, 295,590 mortgage deals with a total value of 140 billion Saudi Riyals were concluded by banks, commercial banks and real estate finance companies in 2020G. The percentage of loans provided by Commercial Banks of the total real estate loans was 96.8% (136,199 SAR Million), while the remaining percentage 3.2% (4,549 SAR Million) was provided by real estate finance companies during the same period.

In 2019, 179,220 mortgage deals were made by banks, commercial banks and real estate finance companies with a total value of 79 billion Saudi Riyals, while 50,596 deals were concluded with a total value of 29.5 billion Saudi Riyals in 2018G.

Homes/ villas accounted for the greater part of the financing with a value of 113.7 billion Riyals (80.8%), followed by apartments with a value of 19.8 billion Riyals (14.1%), while lands contributed 7.2 billion Riyals (5.1%) of the total financing provided by banks and real estate finance companies in 2020G.

Table 3-7: The size of the retail sector in the real estate market: from 2018G to 2020G

| Retail Financing of New Residential Mortgages Provided by Commercial Banks | | | | | |
|---|---|---|---|---|---|
| Year | Total Number of Contracts | Houses/Villas (SAR Million) | Apartment (SAR Million) | Land (SAR Million) | Total (SAR Million) |
| 2018G | 46,885 | 21,995 | 3,041 | 1,980 | 27,015 |
| 2019G | 170,278 | 58,872 | 10,081 | 5,397 | 74,350 |
| 2020G | 289,257 | 110,265 | 18,796 | 7,139 | 136,199 |
| **Retail Financing of New Residential Mortgages Provided by Mortgage Companies** | | | | | |
| Year | Total Number of Contracts | Houses/Villas (SAR Million) | Apartment (SAR Million) | Land (SAR Million) | Total (SAR Million) |
| 2018G | 3,611 | 1,883 | 472 | 133 | 2,488 |
| 2019G | 8,942 | 4,184 | 975 | 112 | 5,271 |
| 2020G | 6,333 | 3,474 | 993 | 82 | 4,549 |
| **Total Retail Financing of New Residential Mortgages Provided by Mortgage Companies, Commercial Banks** | | | | | |
| Year | Total Number of Contracts | Houses/Villas (SAR Million) | Apartment (SAR Million) | Land (SAR Million) | Total (SAR Million) |
| 2018G | 50,496 | 23,878 | 3,513 | 2,113 | 29,503 |
| 2019G | 179,220 | 63,056 | 11,056 | 5,509 | 79,621 |
| 2020G | 295,590 | 113,739 | 19,789 | 7,221 | 140,749 |

Source: 4SiGHT calculations based on Annual Statistics from the Saudi Central Bank

## 3-1-10 Market Promoters

Citizens: Citizens of Saudi Arabia have long been the main driver of housing demand in the Kingdom, which is the home for the largest construction sector in the region. The increasing category of young and growing population has ensured the continuity of demand for the sector. The main characteristics of the residential market are as follows:

1. Increasing and relatively young population.
2. Population growth in urban areas.
3. Home ownership rates are relatively low.
4. Marriage within the youth category and the necessity of providing housing.

**The increase in the ratio of loans to value:** The Saudi Central Bank increased the ratio of loans to value- as stipulated in Article 12 of the Implementing Regulations of the real estate finance system- from 70% to 85% in 2017, and then from 85% to 90% in January 2018 for the first housing units for citizens. This would support the growth of the real estate finance sector and contribute to achieving integration with the national housing objectives, without negatively affecting the requirements for the safety of the banking sector and financial stability.

**White Land Tax:** The imposition of a 2.5% white land tax since 2017 has resulted in the provision of 400 million square meters of space for development in Riyadh, Jeddah, Dammam and Makkah alone. The tax also reduced real estate prices by an average of 18.5%. This led to an increase in real estate development activity and to address the shortage of housing units.

**Growth in Real Estate Investment Trusts (REITs):** The approval of regulations for the use and registration of REITs is another driver in the market, where REIT assets have seen a growing trend.

**Mega Infrastructure Projects:** The construction of smart cities such as NEOM and King Abdullah Economic City will drive the demand for the residential market as well as for high-quality commercial space.

**Rising Public-Private Partnership:** The Saudi government encourages private sector participation in the economy. Private sector participation in large-scale residential and commercial projects is likely to ensure timely completion and delivery of projects and the resolution of operational deficiencies.

## 3-1-11 Target Market

**Market segmentation by building type**

Analysis of building permits issued by the Ministry of Municipal and Rural Affairs shows that the Ministry issued an average of about 107,564 permits to construct new buildings annually in the Kingdom during the five-year period (from 2015G to 2019G). The share of housing and trade (detached housing and residential and commercial buildings of common use) reached 93% of all permits issued.

Table 3-8: Number of building permits by type of building: from 2015G to 2019G

| Building Type | 2015G | 2016G | 2017G | 2018G | 2019G | Average (2015G to 2019G) | % to Total |
|---|---|---|---|---|---|---|---|
| Residential and commercial | 118,860 | 119,060 | 79,280 | 83,264 | 98,572 | 99,807 | 93% |
| Industrial/commercial | 7,289 | 7,545 | 6,180 | 4,111 | 3,389 | 5,703 | 5% |
| Education/health buildings and mosques | 2,075 | 1,893 | 1060 | 796 | 490 | 1,263 | 1% |
| Social and government buildings | 1,128 | 824 | 426 | 542 | 1,034 | 791 | 1% |
| **Total** | **129,352** | **129,322** | **86,946** | **88,713** | **103,485** | **107,564** | **100%** |

Source: Ministry of Municipal and Rural Affairs, different years

### 3-1-12 Market segmentation by housing unit ownership

The distribution of Saudi housing units by housing ownership shows that a total of 3.68 million housing units were in the Kingdom in 2019, and about 21.6 million Saudi citizens lived in them. It appears by analyzing the ownership of housing units that about 62% of the housing units are owned and accommodate about 66% of the population. While the rented housing units constitute the remaining percentage of 35.5%, accommodating 31.5% of the population.

This analysis shows that there are at least 1.3 million families living in rented housing, and this category may wish to own their own homes in the future. This demand may also increase with the number of new families in the future. Moreover, a segment of families who currently own homes may wish to move to new homes or to own for the purpose of investment.

Table 3-9: Housing units occupied by Saudi families by ownership of residential housing units for the year 2019G

| Home ownership | Number of housing units | % to Total | Individuals | % toTotal |
|---|---|---|---|---|
| Owned | 2,285,786 | 62.10% | 4,285,209 | 66.2% |
| Leased | 1,306,662 | 35.5% | 6,793,100 | 31.5% |
| Provided by the employer | 85,510 | 2.3% | 500,141 | 2.3% |
| Others | 3,969 | 0.1% | 13,998 | 0.1% |
| **Total** | **3,681,927** | **100.0%** | **21,592,448** | **100.0%** |

Source: Housing Survey, General Authority for Statistics, Kingdom of Saudi Arabia, 2019

### 3-1-13 Market segmentation by Region

Market segmentation by geographic region shows that the Central Region has the largest number of building permits with 43.8% followed by the Western Region with 16.8%. This indicates that these two regions are the largest market for all types of building construction. This can be largely attributed to the nature of these two regions, as the central region is the commercial and residential hub due to the concentration of the main offices of banks and major companies, as well as all ministries and government agencies; While the western region is the hub of religious tourism, because the two holy cities of Makkah and Madinah are witnessing the construction of commercial buildings such as hotels, furnished apartments, restaurants, retail stores and others to serve pilgrims and visitors for Umrah.

Table 3-10: Building Permits by Region in 2019

| Region | % to Total |
|---|---|
| Central Region | 43.2% |
| Western Region | 16.8% |
| Eastern Region | 11.4% |
| Southern Region | 14.8% |
| Northern Region | 13.8% |
| **Total** | **100%** |

Source: Ministry of Municipal and Rural Affairs, 2019

### 3-1-14 Percentage of the Saudi population in rented houses

Housing tenure data by region shows that the Central and Western Regions together make up 58% of the total Saudi population residing in rented housing.

Table 3-11: Percentage of the Saudi population in rented housing by regions in 2019

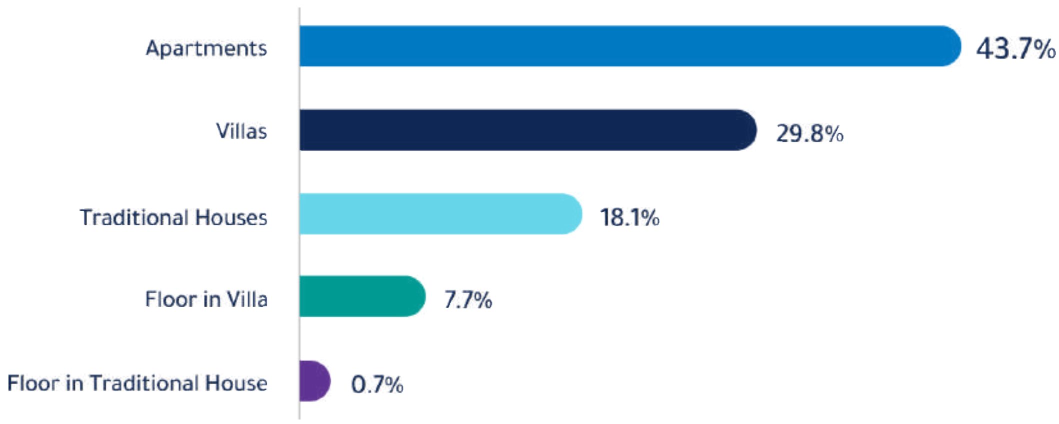
| Percentage of the Saudi population in rented housing by regions, 2019 | |
|---|---|
| Region | % to Total |
| Central Region | 25.3% |
| Western Region | 32.9% |
| Eastern Region | 20.3% |
| Southern Region | 12.3% |
| Northern Region | 9.2% |
| **Total** | **100%** |

Source: Housing survey, General Authority for Statistics, Kingdom of Saudi Arabia in 2019

### 3-1-15 Type of Housing Unit occupied by Saudi Families

The current structure of housing types (for Saudis) shows that about 44% of the population lives in apartments while 30% of the population lives in villas and 18% lives in traditional homes. This analysis shows an increase in the current use of apartments and villas, which will be in greater demand in the future because traditional homes are no longer generally built in Saudi Arabia.

Figure 3-4: Housing Units Occupied by Saudi Families

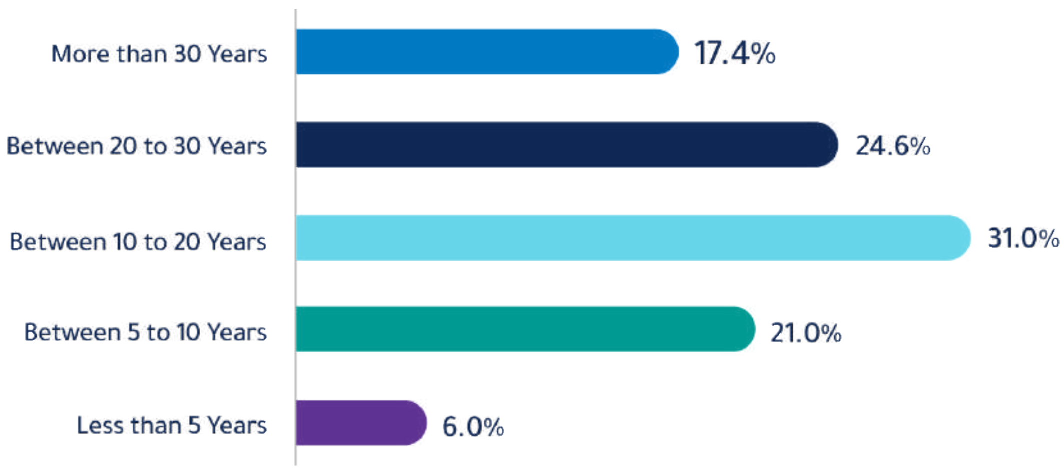



Housing survey, General Authority for Statistics, Kingdom of Saudi Arabia, 2019

### 3-1-16 The age of the housing unit occupied by Saudi families

The data on the age of the housing unit occupied by Saudi families shows that about 17.4% of the housing units occupied by Saudi families in 2019 have been built more than 30 years ago. Thus, there may be a demand for 641,000 housing units in the next five years to replace the old buildings.

Figure 3-5: The age of the housing unit occupied by Saudi families




Housing survey, General Authority for Statistics, Kingdom of Saudi Arabia, 2019

## 3-2 Competition Landscape

- **Ownership and assets**

According to the audited annual financial reports of real estate finance companies in the Kingdom of Saudi Arabia, the total value of the assets of these companies were about 14 billion Saudi Riyals in 2020. The Saudi Home Loans Company (SHL) acquired the largest share of assets with 31.8% of the total assets of real estate finance companies in the Kingdom of Saudi Arabia, with total assets of about 4.5 billion Saudi riyals. Amlak International Real Estate Finance Company comes second with total assets of SAR 3.6 billion (25.5%), followed by Bidaya Home Finance (18.1%). Deutsche Gulf Finance acquired 16%, followed by Dar Al Tamleek 6.5% and Abdullatif Jameel Real Estate Finance 2.1%.

Most of the real estate finance companies in Saudi Arabia are financed by the private sector, while government agencies own a stake in some of them, such as Bidaya Home Finance and Dar Al Tamleek. On the other hand, there is foreign ownership in both the Saudi Home Loans Company and Deutsche Gulf Finance.

Table 3-12: Ownership and assets of real estate finance companies on December 31, 2020G.

| Company Name | Government Ownership | Foreign Ownership | Total Assets | |
|---|---|---|---|---|
| | | | SAR Million | % to Total |
| Saudi Home Loans Company | Nil | International Finance Corp. (IFC) | 4,465 | 31.8% |
| Amlak International Real Estate Finance Company | Nil | Nil | 3,580 | 25.5% |
| Bidaya Home Finance Company | Public Investment Fund | Nil | 2,545 | 18.1% |
| Deutsche Gulf Finance Company | Nil | Deutsche Bank | 2,240 | 16.0% |
| Dar Al Tamleek Company | The General Organization for Social Insurance and the Public Pension Agency | Nil | 910 | 6.5% |
| Abdullatif Jameel Real Estate Finance | Nil | Nil | 292 | 2.1% |
| **Total** | **Nil** | | **14,032** | **100%** |

Source: 4SiGHT calculation based on audited Annual Reports of real estate finance companies

- **Types of loans**

Loan portfolios are concentrated in retails loans with limited lending to corporate clients. Retail sector loans constituted 85.6% of the total loans, while corporate sector loans constituted 14.4% in 2020. Net loans increased by 18% from SAR 19.9 billion in 2019G to SAR 23.5 billion in 2020.

Table 3-13: Consolidated Net, Retail and Corporate Loans as of December 31, 2020G.

| Real Estate Finance Companies | Net Loans (SAR Billion) | | Retail Net Loans (SAR Billion) | | Corporate Net Loans (SAR Billion) | |
|---|---|---|---|---|---|---|
| Million SAR | 2019G | 2020G | 2019G | 2020G | 2019G | 2020G |
| Consolidated | 19.933 | 23.524 | 16.921 | 20.140 | 3.012 | 3.384 |

Source: Saudi Central Bank

- **Assets and Liabilities**

Saudi real estate finance companies witnessed positive efficiency and quality in assets on an annual basis from 2019G to 2020. Total assets increased from SAR 12.87 billion in 2019 to about SAR 14 billion in 2020. Total liabilities also increased from SAR 7.95 billion in 2019G to about SAR 9.83 billion in 2020.

Table 3-14: Assets and liabilities as of December 31, 2020.

| Real estate finance companies | Assets (SAR Billion) | | Liabilities (SAR Billion) | | Shareholders' Equity (SAR Billion) | |
|---|---|---|---|---|---|---|
| Million SAR | 2019G | 2020G | 2019G | 2020G | 2019G | 2020G |
| Consolidated | 12.871 | 14.032 | 7.959 | 8.930 | 4.912 | 5.102 |

Source: 4SiGHT calculation based on audited Annual Reports of real estate finance companies

- **Operations and Distribution**

Of the six real estate finance companies, four are based in Riyadh and two are in Jeddah. All companies have at least two branches in each of the major Saudi cities such as Riyadh, Jeddah, Dammam or Khobar. Except for Dar Al Tamleek, which has four branches. There are three companies authorized to work in buying, selling and owning land, real estate and real estate units for financing throughout the Kingdom of Saudi Arabia, while there are three companies that are not allowed to operate in the cities of Makkah and Madinah.

Moreover, all real estate finance companies offer financing products for the purchase of apartments, villas, investment properties and land purchase. Except in some cases, home finance products are provided to citizens as well as expatriates with varying requirements and conditions in terms of maximum loan amount, term, profit rate, down payment, income, etc.

Table 3-15: Real estate finance companies' operations and distribution as of December 31, 2020.

| Company Name | Headquarters | Branches | Market coverage |
|---|---|---|---|
| Saudi Home Loans Company | Riyadh | Jeddah, Dammam | Kingdom of Saudi Arabia * |
| Amlak International Real Estate Finance Company | Riyadh | Jeddah, Khobar | Kingdom of Saudi Arabia |
| Bidaya Home Finance Company | Riyadh | Jeddah, Dammam | Kingdom of Saudi Arabia |

| Company Name | Headquarters | Branches | Market coverage |
|---|---|---|---|
| Deutsche Gulf Finance Company | Riyadh | Jeddah, Khobar | Kingdom of Saudi Arabia * |
| Dar Al Tamleek Company | Jeddah | Jeddah, Riyadh, Khobar | Kingdom of Saudi Arabia * |
| Abdullatif Jameel Real Estate Finance | Jeddah | Riyadh, Khobar | Kingdom of Saudi Arabia |

Source: 4SiGHT calculation based on audited Annual Reports of real estate finance companies

Note: * Exception of Madinah and Makkah

- **Corporate Sector Performance**

The main activities of the Company are financing the purchase of homes, land and apartments, financing real estate that is developed by all companies working in the field of real estate development and financing the establishment of commercial and industrial projects, except for Makkah and Madinah. In 2020, the Saudi Home Loans Company captured a market share of 26.3% in terms of total revenues and 24.3% in terms of net income in 2020.

Table 3-16: The market share of the Saudi Home Loans Company compared to others 2019G - 2020G

| Real Estate Finance Companies | Total Revenue (SAR Million) | | Total Income (SAR Million) | |
|---|---|---|---|---|
| | 2019G | 2020G | 2019G | 2020G |
| Saudi Home Loans Company | 311 | 303 | 55 | 85 |
| Other companies (SAR Million) | 869 | 851 | 243 | 265 |
| **Total (SAR Million)** | **1,180** | **1,154** | **298** | **350** |
| The Saudi Home Loans Company's share of the total | 24.3% | 26.3% | 18.4% | 24.3% |

Source: 4SiGHT calculation based on audited Annual Reports of real estate finance companies

- **Market Share**

Among all the real estate finance companies, the Saudi Home Loans Company recorded the highest share in the market with 26.3% as of 2020G in terms of total revenues, followed by Amlak International Real Estate Finance Company with 24.4% and then Dar Al Tamleek Company with 20.4%.

Table 3-17: Saudi Home Loans Company's market share compared to others for the year 2019-2020G.

| Real Estate Finance Companies | Total Revenue | | Total Income | | Return on equity (annually) |
|---|---|---|---|---|---|
| | (SAR Million) | % | (SAR Million) | % | % |
| Saudi Home Loans Company | 303.3 | 26.3% | 85.1 | 24.3% | 5.4% |
| Amlak International Real Estate Finance Company | 278.7 | 24.2% | 98.9 | 28.3% | 8.6% |
| Bidaya Home Finance Company | 151.0 | 13.1% | 25,0 | 7.1% | 2.9% |
| Deutsche Gulf Finance Company | 177.9 | 15.4% | 59.5 | 17.0% | 8.7% |
| Dar Al Tamleek Company | 235.5 | 20.4% | 85.8 | 24.5% | 15.1% |
| Abdullatif Jameel Real Estate Finance | 7.4 | 0.6% | 4.2 | 1.2% | 1.7% |
| **Total** | **1,153.8** | **100%** | **350.1** | **100%** | **6.9%** |

Source: 4SiGHT calculation based on audited Annual Reports of real estate finance companies

- **Gross and net investment in financing contracts**

The value of the net investment in financing contracts announced by all six real estate finance companies amounted to SR 12,615 million by the end of 2020G. The Saudi Home Loans Company recorded the highest net investment in financing contracts with a share of 34.2%, followed by Amlak International Real Estate Finance Company with a share of 26.6% and the share of Bidaya Home Finance Company reached 18.7%, followed by Deutsche Gulf Finance Company with 16.7%.

Table 3-18: Total and Net Investment of Real Estate Finance Companies in Financing Contracts 2020.

| Real estate finance companies | Total Investment | | Net Investment | |
|---|---|---|---|---|
| | SAR Million | % | SAR Million | % |
| Saudi Home Loans Company | 6,667 | 34.2% | 4,199 | 33.3% |
| Amlak International Real Estate Finance Company | 4,576 | 23.4% | 3,352 | 26.6% |
| Bidaya Home Finance Company | 4,132 | 21.2% | 2,361 | 18.7% |
| Deutsche Gulf Finance Company | 3,484 | 17.9% | 2,106 | 16.7% |
| Dar Al Tamleek Company | 381 | 1.9% | 417 | 3.3% |
| Abdullatif Jameel Real Estate Finance | 269 | 1.4% | 179 | 1.4% |
| **Total** | **19,510** | **100%** | **12,615** | **100%** |

Source: 4SiGHT calculation based on audited Annual Reports of real estate finance companies

4

# Company and Nature of its Business

# 4- Company and Nature of its Business

## 4-1 Company Overview

Saudi Home Loans Company is a Saudi closed joint stock company established in Riyadh, Saudi Arabia, under Commercial Registration No. (1010241934) dated 22/12/1428H (corresponding to 01/01/2008) by virtue of Minister of Commerce and Industry Resolution No. 319/Q dated 01/12/1428H (corresponding to 11/12/2007). The Company is also licensed by the Saudi Central Bank for real estate finance activities in Saudi Arabia under No. (14/A SH/201403) dated 27/04/1435H (corresponding to 27/02/2014G) and the license of the Ministry of Investment No. (102030072425-01) dated 23/07/1430H (corresponding to 16/07/2009G). Its registered address is PO. Box 27072, King Abdulaziz Road, Wazarat District, Riyadh 11417, Saudi Arabia. The Company's current capital is (SAR 1,000,000,000) one billion Saudi Riyals divided into (100,000,000) one hundred million shares with a fully paid nominal value of (10) Saudi Riyals per share, and all are ordinary cash shares.

The Company is one of the leading Islamic real estate finance companies in the Saudi market, providing real estate finance solutions to the retail sector under the supervision of a Shariah control body of experts in the field of Islamic finance to ensure the legitimacy and compliance with Islamic law.

Since its establishment, Saudi Home Loans Company has sought to occupy a leading position among the leading companies in the field of Islamic finance directed to meet the basic housing needs of customers in the Saudi market and help them find solutions to finance their homes while adhering to the provisions of Islamic Sharia. The presence of a Sharia supervisory board ensures that all products and services comply with the provisions and rules of Islamic law. During this period and since its inception, Saudi Home Loans Company was able to make a quantum leap in terms of achievements and its interest in customer satisfaction and enriching its experience as a supreme goal it seeks to achieve. Since the beginning, the Company has endeavored to provide its services with professionalism and high quality, by relentlessly striving to serve the citizen and expatriates for the benefit of society and the individual through its various products.

The net profits of the Company after Zakat and income tax was (SR 85.21) million in 2020G compared to (SR 54.66) million in 2019G. The total revenue of the Company was (SR 303.34) million in 2020G compared to (SR 311.37) million in 2019G.

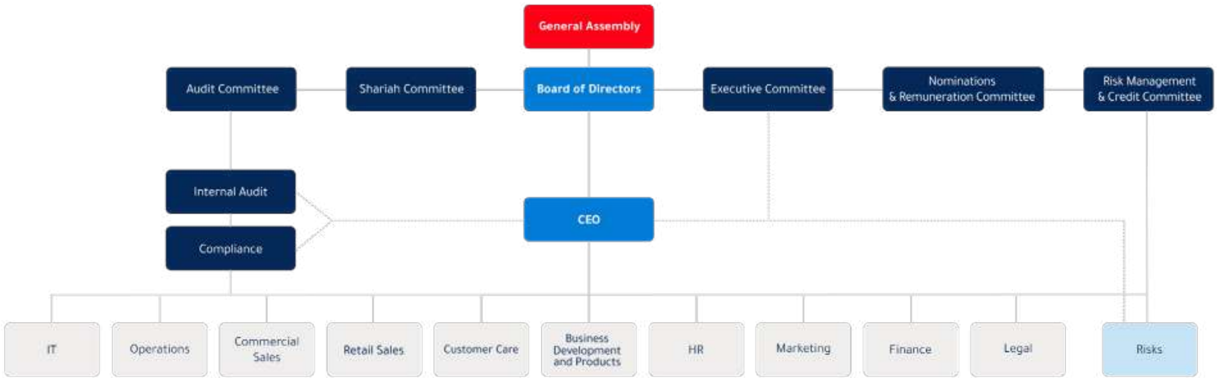
Total shareholders' equity was at the end of 2020 (SR 1,586.07) million compared to (SR 1,500.09) million in 2019G. The Company has also achieved net profit, before Zakat and income tax, of (SR 97.58) million in 2020, compared to (SAR 78.73) million in 2019G.

The members of the Board acknowledge that, as of the date of this prospectus, there is no intention of any substantive change of the nature of the Company's business.

## 4-2 Company's Structure

### 4-2-1 Overview

Figure 4-1: The following diagram shows the Company's committees and organizational structure as on the date of this Prospectus.




## 4-3 Company's History

Saudi Home Loans Company was established on 01/01/2008G in an alliance between the Arab National Bank, Dar Al-Arkan Company, the International Finance Corporation (IFC) and a number of individual investors and companies to provide real estate financing products in compliance with the provisions of Islamic Sharia for the retail sector with a capital of ( SR 1,000,000,000) paid in full and divided into one hundred million (100,000,000) shares with a nominal value of ten (10) Saudi Riyals per share, fully paid, all are ordinary cash shares. The following table shows the Company's ownership structure as on the date of this prospectus.

Table 4-1: The following table summarizes the structure of direct ownership in the Company before and after the Offering:

| Shareholder | Before the Offering | | | After the Offering | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Ownership Percentage (%) | Nominal Value of Shares (Saudi Riyal) | Number of Shares | Ownership Percentage (%) | Nominal Value of Shares (Saudi Riyal) |
| Arab National Bank | 40,000,000 | 40% | 400,000,000 | 28,000,000 | 28% | 280,000,000 |
| Dar Al Arkan Real Estate Development Company | 15,000,000 | 15% | 150,000,000 | 10,500,000 | 10.50% | 105,000,000 |
| Kingdom of Installment Trading Company | 9,000,000 | 9% | 90,000,000 | 6,300,000 | 6.30% | 63,000,000 |
| Yousef bin Abdullah Al Shelash | 8,000,000 | 8% | 80,000,000 | 5,600,000 | 5.60% | 56,000,000 |
| Hethloul bin Saleh Al Hethloul | 6,000,000 | 6% | 60,000,000 | 4,200,000 | 4.20% | 42,000,000 |
| Tariq bin Mohammed Al Jarallah | 6,000,000 | 6% | 60,000,000 | 4,200,000 | 4.20% | 42,000,000 |

| Shareholder | Before the Offering | | | After the Offering | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Ownership Percentage (%) | Nominal Value of Shares (Saudi Riyal) | Number of Shares | Ownership Percentage (%) | Nominal Value of Shares (Saudi Riyal) |
| International Finance Corporation | 5,000,000 | 5% | 50,000,000 | 3,500,000 | 3.50% | 35,000,000 |
| Abdullatif bin Abdullah Al Shalash | 5,000,000 | 5% | 50,000,000 | 3,500,000 | 3.50% | 35,000,000 |
| Inma' Al-Madaen Company | 4,000,000 | 4% | 40,000,000 | 2,800,000 | 2.80% | 28,000,000 |
| Daaim Al Khaleej Company | 2,000,000 | 2% | 20,000,000 | 1,400,000 | 1.40% | 14,000,000 |
| The Public | - | - | - | 30,000,000 | 30% | 300,000,000 |
| **Total** | **100,000,000** | **100%** | **1,000,000,000** | **100,000,000** | **100%** | **1,000,000,000** |

Table 4-2: The following table summarizes the structure of indirect ownership in the Company before and after the offering:

| Shareholder | Before the Offering | | | After the Offering | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Ownership Percentage (%) | Nominal Value of Shares (Saudi Riyal) | Number of Shares | Ownership Percentage (%) | Nominal Value of Shares (Saudi Riyal) |
| Tariq bin Mohammed Al Jarallah | 4,360,292 | 4.36% | 43,602,920 | 3,052,204 | 3.05% | 30,522,042 |
| Yousef bin Abdullah Al Shelash | 590,000 | 0.59% | 5,900,000 | 420,000 | 0.42% | 4,200,000 |
| Hethloul bin Saleh Al Hethloul | 668,163 | 0.67% | 6,681,630 | 467,714 | 0.47% | 4,677,138 |

Table 4-3: Details of the shareholders who own 5% or more of the shares directly or indirectly:

| Shareholder | Before the Offering | | | After the Offering | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Ownership Percentage (%) | Nominal Value of Shares (Saudi Riyal) | Number of Shares | Ownership Percentage (%) | Nominal Value of Shares (Saudi Riyal) |
| Arab National Bank | 40,000,000 | 40% | 400,000,000 | 28,000,000 | 28% | 280,000,000 |
| Dar Al Arkan Real Estate Development Company | 15,000,000 | 15% | 150,000,000 | 10,500,000 | 10.50% | 105,000,000 |
| Kingdom of Installment Trading Company | 9,000,000 | 9% | 90,000,000 | 6,300,000 | 6.30% | 63,000,000 |
| Tariq bin Mohammed Al Jarallah | 10,360,292 | 10.36% | 103,602,920 | 7,252,204 | 7.25% | 72,522,040 |
| Yousef bin Abdullah Al Shelash | 8,520,000 | 8.52% | 85,200,000 | 6,020,000 | 6.02% | 60,200,000 |
| Hethloul bin Saleh Al Hethloul | 6,668,163 | 6.67% | 66,681,630 | 4,667,714 | 4.67% | 46,677,140 |
| International Finance Corporation | 5,000,000 | 5% | 50,000,000 | 3,500,000 | 3.50% | 35,000,000 |
| Abdullatif bin Abdullah Al Shalash | 5,000,000 | 5% | 50,000,000 | 3,500,000 | 3.50% | 35,000,000 |

## 4-4 Overview of Existing Substantial Shareholders

### 4-4-1 Arab National Bank

The Arab National Bank (a Saudi joint stock company, "**the Bank**") was established by Royal Decree No. M/38 on Rajab 18, 1399H (corresponding to June 13, 1979G). The Bank started its business on February 2, 1980. The bank's capital is fifteen billion (15,000,000,000). The bank's shares are listed on the Saudi Stock Exchange (Tadawul).

The Bank's activity is represented in providing banking services, including accepting deposits and providing financing services to its customers through its branches in the cities of the Kingdom of Saudi Arabia.

Table 4-4: The table below shows the main owners of the Arab National Bank

| Name | Ownership Percentage |
|---|---|
| Arab Bank (PJSC) | 40% |
| Rashid Abdulrahman Al Rashid & Sons Co. | 9.96% |
| General Organization for Social Insurance | 7.21% |
| Al Jabr Investment Company | 5.65% |

### 4-4-2 Dar Al Arkan Real Estate Development Company

Dar Al-Arkan Company was established on 16/04/1421H (18/7/2000G), and the Company was transformed to a joint stock company under Ministerial Resolution No. 1021 dated 10/6/1426H (17/7/2005G). The Company's capital is ten billion eight hundred million Saudi Riyals.

The Company's activity is represented in buying and owning real estate and lands, constructing buildings on them and investing them by selling or renting them for the benefit of the Company, general contracting for residential and commercial buildings (construction, repair, demolition and restoration), wholesale and retail trade in sanitary materials, building materials, plumbing tools, electricity, paints, office tools and cars in cash and installments.

There are no major owners in Dar Al Arkan Real Estate Development Company.

### 4-4-3 Kingdom of Installment Trading Company

Kingdom of Installment Company was established on 14/05/1421H (14/08/2000G) as a limited liability company in accordance with the Companies Law issued by Royal Decree No. (M/6) dated 22/03/1385H and its amendments.

The company's activity is represented in import and export services and marketing for others, buying and owning real estate and lands, selling them, erecting buildings on them, investing them by selling or renting, managing and owning facilities, and managing, maintaining and developing real estate.

Table 4-5: The table below shows the main owners of Kingdom of Installment Company:

| Name | Ownership Percentage |
|---|---|
| Tariq Mohammed Al Jarallah | 48% |
| Majed Roumi Al Roumi | 27.5% |
| Abdulaziz Abdullah Al Shalash | 24.5% |

### 4-4-4 Inmaa Al Madaen Company

Inmaa Al Madaen Company was established on 10/10/1427H (1/11/2006G) as a limited liability company in accordance with the Companies Law issued by Royal Decree No. (M/6) dated 22/03/1385H and its amendments.

The Company's activity is represented in real estate activities, construction, wholesale and retail trade, repair of motor vehicles and motorcycles.

Table 4-6: The table below shows the main owners of Inmaa Al Madaen Company:

| Name | Ownership Percentage |
|---|---|
| Emar Al Byader Company | 50% |
| Madaraat Development & Technology Company | 50% |

Table 4-7: The table below shows the main owners of Emar Al Byader Company

| Name | Ownership Percentage |
|---|---|
| Munira Saleh Al-Othaim | 30% |
| Hessah Ibrahim Al-Samaani | 30% |
| Ibrahim Abdullah Al-Junaidli | 30% |
| Yousef Abdullah Al Shelash | 10% |

Table 4-8: The table below shows the main owners of Madaraat Development & Technology Company:

| Name | Ownership Percentage |
|---|---|
| Yousef Abdullah Al Shelash | 14.66% |
| Hethloul Saleh Al Hethloul | 5.90% |
| Khaled Abdullah Al Shalash | 6.29% |
| Majed Roumi Al Roumi | 5.00% |
| Abdulaziz Abdullah Al Shalash | 3.44% |
| Tariq Mohammed Al Jarallah | 1.61% |
| Al Arkan Construction Co. Ltd. | 63.10% |

Table 4-9: The table below shows the main owners of Al-Arkan Construction Co. Ltd:

| Name | Ownership Percentage |
|---|---|
| Majed Roumi Al Roumi | 34% |
| Majed Abdulaziz Al Qasem | 33% |
| Hethloul Saleh Al Hethloul | 33% |

## 4-4-5 Daaim Al Khaleej Company

Daaim Al Khaleej Company was established on 28/11/1427H (19/12/2006G) as a limited liability company in accordance with the Companies Law issued by Royal Decree No. (M/6) dated 22/03/1385H and its amendments.

The Company's activity is represented in real estate activities, construction, wholesale and retail trade, repair of motor vehicles and motorcycles.

Table 4-10: The table below shows the main owners of Daaim Al Khaleej Company:

| Name | Ownership Percentage |
|---|---|
| Emar Al Byader Company* | 50% |
| Inmaa Al Madaen Company | 50% |

*Table 4-7 shows the main owners of Emar Al Byader Company

**1. Yousef bin Abdullah Al Shelash**

Yousef bin Abdullah Al Shelash was born on 01/07/1387H (05/10/1967G). He holds a Bachelor's degree in Islamic Sharia from Imam Muhammad bin Saud University in 1990 and a diploma in procedural systems studies programs from the Institute of Public Administration 1993.

He is the Chairman of the Board of Directors of Dar Al-Arkan Real Estate Development Company from 2000G to date, and Chairman of the Board of Directors of the Saudi Home Loans Company from 2007 to date.

**2. Hethloul bin Saleh Al Hethloul**

Hethloul bin Saleh Al Hethloul was born on 01/07/1384H (05/11/1964G). He holds a diploma in management and commerce from the Commercial Secondary Institute in 1411H.

Member of the Board of Directors of Dar Al-Arkan Real Estate Development Company since 2000 to date. He was also a member of the Board of Directors of the Saudi Home Loans Company between 2007 and 2018.

**3. Tariq bin Mohammed Al Jarallah**

Tariq bin Muhammad Al Jarallah was born on 06/05/1389H (20/07/1969G). He holds a diploma in accounting and commercial sciences from the Intermediate College of Technology in Al-Ahsa in 1993.

Member of the Board of Directors of Dar Al Arkan Real Estate Development Company since 2004 to date, and he was also a member of the Board of Directors of the Saudi Home Loans Company between 2007 and 2013.

**4. International Finance Corporation**

Founded in 1956, International Finance Corporation (IFC) is the largest global development institution focused on the private sector in developing countries. IFC, a member of the World Bank Group, advances economic development and improves the lives of people by encouraging the growth of the private sector in developing countries. Since its establishment, IFC has expanded to more than 100 countries.

**5. Abdullatif bin Abdullah Al Shalash**

Abdullatif bin Abdullah Al Shalash was born on 01/07/1391H (23/08/1971G). Managing Director of the Board of Directors of Dar Al Arkan Real Estate Development Company from 2005, then the Managing Director from 2007 until 2019, and a member of the Board of Directors of the Saudi Home Loans Company since 2007 to date.

Table 4-11: The following table shows the most important developments for the Company since its inception until the date of this prospectus.

| Date | Highlights |
|---|---|
| 2008 | – The Company was established as a closed joint stock company under the name "**Saudi Home Loans Company**" with a capital of (1,000,000,000) one billion Saudi Riyals in the city of Riyadh.<br>– Leasing program for individuals.<br>– Opening of the Riyadh branch. |
| 2009 | – Making profits after one year of incorporation. |
| 2010 | – Financing portfolio growth by 55.88% |
| 2011 | – Financing portfolio growth by 40.97% |
| 2012 | – Financing portfolio growth by 41.72% |
| 2013 | – Annual sales exceeded 1 billion Riyals<br>– The value of the financing portfolio amounted to SR 3,363.16 |
| 2014 | – Obtaining a license from the Saudi Central Bank for Real Estate Finance<br>– The value of the financing portfolio amounted to SR 3,554.18 |
| 2015 | – Establishment of the Western Region and Eastern Region Branches<br>– Financing contracts reached more than 5,000 contracts |
| 2016 | – Financing portfolio growth by 8.9% |
| 2017 | – The value of the financing portfolio amounted to SR 4,181.73.<br>– Signing joint agreements with the Ministry of Housing and the Real Estate Development Fund.<br>– Receiving the award for the best real estate financing product for retail.<br>– Obtaining the award for the best Arab real estate financing company.<br>– Receiving the award for the best investment product. |
| 2018 | – Financing portfolio growth by 2%.<br>– The mortgage loan program supported by the Real Estate Development Fund. |
| 2019 | – Possibility to apply electronically for financing through the website.<br>– Mortgage program. |
| 2020 | – Signing joint agreements with the Saudi Refinancing Company.<br>– The value of the financing portfolio amounted to SR 4,199.14<br>– Financing contracts reached more than 7,041 contracts. |

The beginning of 2021 witnessed many developments that contributed to improving operations and upgrading the Company's performance indicators in the real estate market, including:

- Updating credit policies in line with market requirements
- Updating the business identity
- Updating the website
- Updating the Company's organizational structure
- Introducing the fixed lease product
- Introducing the product of off-plan sale
- Introducing the Murabaha product
- Introducing the commercial real estate unit product
- Creating a commercial sales department

- Working on launching a self-construction product, and the product will be launched after obtaining the necessary approval
- Decrease of bad debt ratio
- Increase of sales in the current period compared to the same period last year 2020G

## 4-5 Vision, Mission and Strategy

### 4-5-1 Vission

Contribute to achieving the Kingdom's Vision 2030 in raising the percentage of ownership of homes through financing citizens through financial solutions compatible with Islamic Sharia.

### 4-5-2 Mission

We seek to provide a variety of financing solutions that meet the needs of all segments of customers to easily own their properties through using the latest technologies.

### 4-5-3 Values

- **Digital:** Develop digital communication channels with customers.
- **Speed:** Streamline the customer journey with smooth procedures.
- **Growth:** Achieve a developed environment and sustainable growth.

### 4-5-4 Strategy

Saudi Home Loans Company seeks to be the leading company in the field of Sharia compliant real estate financing and increase its returns at a steady and balanced pace, which contributes to consolidating its position and its leading role in the real estate finance sector in the Kingdom of Saudi Arabia. The Company's success and stability is also due to the presence of a team with extensive experience in this field, high productivity and keenness to achieve the Company's strategic objectives.

## 4-6 The Company's Strategic Objectives are Based on the Following Initiatives:

### 4-6-1 Strengthening its leading position in the field of real estate finance

The Company aims to strengthen its leadership position in the field of real estate finance, specifically in the field of financing individuals, to enable them to own adequate housing through financing solutions compatible with Islamic Sharia. Saudi Home Loans Company has been keen to continue what it has started by developing an action plan and strategy appropriate to the objectives of the Kingdom's Vision 2030 to contribute to the renaissance of the Kingdom and the development of the real estate sector and the housing program to achieve its goals of facilitating citizen ownership of adequate housing.

The Company will rely on its relationships with its clients, its reputation with regard to the quality of services provided, and also on the praise of it by clients as a preferred option for real estate financing services for individuals. The Company aims to combine its leadership in the efficiency of its services provided, its competitive prices, its specialized knowledge, as well as it highly trained cadres, in order to enhance its position in the field of real estate financing for individuals.

- **Develop a variety of financing solutions**

The Company seeks to become the best choice in providing financing solutions compatible with the principles of Islamic law for individuals through a variety of products that suit all targeted segments.

- **Increase the size of the credit portfolio**

The Company aims to increase the size of the financing portfolio and increase the returns on assets by offering its products to the largest possible segment.

- **Create a stimulating work environment**

The Company is keen to create a fruitful work environment by creating a healthy work culture that encourages employees to cooperate and raise productivity and efficiency in performance.

- **Adopt the best practices for risk management**

The Company is working on developing a risk management plan by analyzing and evaluating potential risks and setting procedures to ensure curbing and controlling them. The Company also seeks to increase the targeted segments in order to reduce the risks arising from some categories and to diversify the categories in the financing portfolio.

- **Enrich customer experience**

The Company seeks to provide the best services to its customers by improving work procedures and mechanisms. It also works on developing technical systems and increasing the spread of sales channels where best practices are used in exploiting channels of communication with customers. The Company has also developed a plan for geographical marketing in the regions to cover the largest possible segment of potential customers in the Saudi market.

- **Update the identity and keep pace with the digital transformation**

The Company has updated its brand and visual identity to reflect its growth strategy that aims to enable citizens to own their properties through various financing solutions that meet the needs of all customer segments with ease and through the latest technologies. The Company also believes that technology is an essential element in improving the customer experience and the optimal application of the Company's strategies, and therefore the Company seeks to invest in improving its electronic systems and infrastructure on an ongoing basis. The Company intends to take advantage of the latest technologies to improve its digital strategy in order to provide faster and simpler services to customers.

The Company also constantly monitors developments in the regional and global markets in the field of electronic services related to the finance sector in general and real estate finance in particular, to benefit from them in improving its digital services to serve the Company's strategies.

- **Develop relationships with Public and Private Agencies and institutions**

In order to expand the framework of work, the Company seeks to develop joint relations with relevant parties, the most important of which are the Ministry of Housing, the Real Estate Development Fund, the National Housing Company, and a number of other agencies and efforts in order to diversify its fields of services and products, which serves the common interests with all parties.

## 4-7 Competitive Advantages

### 4-7-1 A leading Company in the Field of Real Estate Finance:

Through a journey full of achievements over the past decade, Saudi Home Loans Company has been able to consolidate its position as one of the most distinguished and stable financing companies. Despite the Corona pandemic and its severe impact on the global economy, the Company was able to overcome these obstacles and continue to provide its services to the Company's clients and potential customers by remotely organizing its channels and managing its operations with high efficiency and adapting in a short time to a unique pace of work during the year 2020G. The Company was able to develop performance results and realize revenues and profits during the same year of (303.34) million Saudi Riyals and (85.21) million Saudi Riyals, respectively, with an increase of 24% and 55.7% compared to 2019G, respectively. The financing assets amounted to (4.28) billion Riyals by the end of 2020G. Its market share of the total financing assets of real estate finance companies reached (31.8%) at the end of 2020G, as the highest share in the market.

### 4-7-2 Strong Financial Condition and High Financing Capacity:

The Company witnessed a strong financial performance during the previous years, as it maintained high profit margins despite the slowdown in the general economic conditions, which enabled the Company to continue developing its business and continuing to improve the quality of its real estate financing services, as the Company's profits rose at an accumulating rate equivalent to 44.6% during the three past years from 2018G to 2020G.

The Company has a large financing capacity that makes it able to finance its future operations, where the ratio of indebtedness to equity (financial leverage) is 1.82 times in 2020G. This guarantees that the Company has the required financing capacity to implement its expansion plans without resorting to shareholders for additional financing. The Company aims continuously to diversify sources of financing and is based on monitoring SAIBOR rates and financial derivatives, in order to beware of high borrowing rates.

### 4-7-3 Fast and Streamlined Procedures:

The Company aims to continuously improve, accelerate and increase the efficiency of the services provided to its current and potential customers. Therefore, the Company is constantly working on developing technical systems and increasing the spread of sales channels, where best practices are used in the exploitation of digital platforms. The Company has also made it possible to submit and follow up on financing requests electronically or through all communication channels, with the aim of speeding up procedures. It is worth mentioning that the Company is automating the technical connectivity processes with the largest electronic platforms in order to facilitate access to the Company's services and benefit from them.

### 4-7-4 Senior Management with Extensive Experience:

The Company's senior management team has extensive experience in the banking, financial and real estate finance fields, and each member has a record of outstanding achievements in the financial and operational aspects, as they held senior and leadership positions in various banks, financial companies and government sectors. The senior management team is also distinguished by its high ability to coexist with the different conditions of the financing market and its ability to develop the Company's financing portfolio, manage risks and raise the Company's profit rate. This experience is reflected in managing the Company effectively and raising the quality of its operational performance, as it was able to manage the Company during the recent economic crisis in the world, and this is one of the competitive advantages of the team to adapt to future changes and be able to compete in the real estate finance market.

### 4-7-5 Innovation:

A talented and experienced team is working to enrich the products offered by the Company with a high-end set of innovative services and products that may exceed the aspirations of customers and aim to provide adequate housing for customers, in line with the Kingdom's vision 2030 by building a vibrant community and a populated environment. The Company has added a number of services to the real estate financing products. It also worked on developing a number of customer-oriented services.

### 4-7-6 Distinguished Brand:

Through a journey full of achievements over the past decade, the Saudi Home Loans Company has been able to reinforce its position as one of the most distinguished and stable financing companies. The Company received a number of awards and guidelines, such as the award for the best real estate financing product for retail, the award for the best Arab real estate financing company for the year 2017G, as well as the award for the best investment product in the same year.

## 4-8 Company Activities

The main activity of the Company is to engage in real estate finance activity for retail in accordance with the Companies Law, the Finance Companies Control Law and its Implementing Regulations, related regulations, and the rules and instructions issued by the competent authorities within the Kingdom of Saudi Arabia. The Company also acknowledges that there is no activity for the Company outside the Kingdom of Saudi Arabia.

## 4-9 Income Sources and Financing Products

### 4-9-1 Clients:

The Company targets various segments of retail customers, and finances individuals from citizens as well as expatriates if they obtain the necessary approvals from the relevant authorities.

Table 4-12: Company's Clients

| Clients | 31 December 2017G | 31 December 2018G | 31 December 2019G | 31 December 2020G |
|---|---|---|---|---|
| Ratio of the value of retail customer contracts to the net financing portfolio | 100% | 100% | 100% | 100% |
| The number of the Company's clients | 6298 | 6587 | 6909 | 7041 |
| The number of the Company's clients | 6298 | 6587 | 6909 | 7041 |
| Government Sector | 1662 | 1728 | 1821 | 1832 |
| Private Sector | 1841 | 1879 | 2003 | 2163 |
| Retirees | 2565 | 2744 | 2859 | 2833 |
| Investors and businessmen | 229 | 235 | 226 | 212 |

| Type of real estate units | 31 December 2017G | 31 December 2018G | 31 December 2019G | 31 December 2020G |
|---|---|---|---|---|
| Apartment | 1574 | 1627 | 1774 | 1909 |
| Residential Building | 47 | 72 | 93 | 103 |
| Land | 591 | 590 | 575 | 551 |
| Villa | 4086 | 4298 | 4468 | 4478 |

Source: The Company

### 4-9-2 Financing Products:

The Company's activity is focused on providing real estate financing products and services that are compatible with the provisions of Islamic Sharia, through its approval by the Company's Sharia committee.

### 4-9-3 Lease (Ijarah):

A financing product approved by the Shariah Board for financing clients wishing to obtain financing to own real estate in the form of leasing.

Table 4-13: Rates of Ijarah Contracts

| Ijarah Contracts Rates | 31 December 2017G | 31 December 2018G | 31 December 2019G | 31 December 2020G |
|---|---|---|---|---|
| The percentage of the value of the lease (Ijarah) contracts to the Company's contract assets, net | 100% | 100% | 100% | 100% |
| Percentage of Ijarah contracts revenue to the Company's total revenue | 94.11% | 95.8% | 95.9% | 95.6% |

Source: the Company

### 4-9-4 Murabaha:

A financing product approved by the Shariah Board for financing clients wishing to obtain financing to purchase and own in the form of Murabaha.

### 4-9-5 Self-Construction:

A financing product approved by the Shariah Board for financing clients wishing to obtain cash to build a property in the form of Murabaha.

### 4-9-6 Off-plan sale:

A financing product approved by the Shariah Board for financing clients wishing to obtain financing to own real estate under construction by approved developers in the form of leasing.

### 4-9-7 Commercial Real Estate Finance:

Financing approved by the Shariah Board is designed for clients whose basic income depends on income generating real estates or commercial activity or investment, and it is provided through three financing products:

- Mortgage
- Murabaha
- Self-construction financing

**Mortgage:**
A financing product approved by the Shariah Committee for financing clients wish to obtain cash, in return for mortgaging real estate owned by them in the form of leasing.

### 4-9-8 Selling Portfolios

Portfolio sales are one of the additional sources of financing for the Company, as it implements them to benefit from its profits in reducing its financing burdens and investing in the Company's financing activities. The portfolios sold as on December 31, 2020G consist of one transaction that was carried out with the Saudi Refinancing Company, amounting to (SR 50.17) million on October 31, 2020G, and it was implemented on 10/11/2020G.

Table 4-14: Income sources and financing products

| Income Sources and Financing Products (SAR Million) | 31 December 2017G | 31 December 2018G | 31 December 2019G | 31 December 2020G |
|---|---|---|---|---|
| Return on financing contracts | 272.6 | 302.1 | 298.6 | 290.1 |
| Fees for financing transactions and valuation of related assets | 4.4 | 2.9 | 4 | 5.3 |

Source: the Company

### 4-9-9 Revenue from Ijarah Contracts:

Ijarah contracts represent 95.6%, 95.9%, and 95.8% of the Company's total revenues in the years 2020G, 2019G, and 2018G, respectively. The Company provides lease contracts of two types:

- Fixed Profit Ijarah Contract: Long-term financing where the profit margin is fixed and the amount of payments is fixed for the entire financing period
- Ijarah contract with variable profit rate: short-term financing, as the profit margin depends on SAIBOR and the amount of payments is variable for the entire financing period.

**Fees for financing transactions and valuation of assets related to:**
These fees include administrative fees, real estate appraisal fees, early settlement fees (partial and total) and management fees for sold portfolios.

**Administrative fees and evaluation fees.**

**Administrative fees:**
These are the fees collected from the customer in return for the credit study of the financing application. The fees are due upon the customer's approval of the financing offer.

**Real estate appraisal fees:**

These are the fees collected by the Company for the purpose of conducting a real estate appraisal of properties for the retail sector. The fees are due upon the customer's approval of the financing offer and the commencement of the real estate appraisal procedures.

**Fees for managing and maintaining financing contracts for the sold portfolios:**

It is the fees that the Company obtains for managing and maintaining the financing contracts for the sold portfolios, as it constitutes a certain percentage of the remaining amount of the financing origin for those portfolios and is collected on a monthly basis.

## 4-10 Future Plans and Initiatives

### 4-10-1 Technical Development

The Company is working on developing the technical aspect to upgrade operational capacity and performance quality, adding a remarkable excellence of services provided to customers. It also increases proliferation and easy access through electronic channels such as the website, social networking channels and smart devices applications so that it can serve their existing customers and attract new customers.

### 4-10-2 Digital Transformation

The Company is keen to develop its work process and provide what would promote the level of services provided to customers with easier process by relying on the latest technology and digital solutions. The Company has developed plans and strategies to ensure the achievement of digital transformation goals and access to integrated digital services that facilitate all dealings for customers and gives them an exceptional financial experience. As for automation and digitization of internal work procedures to upgrade the strong technical infrastructure it has, the Company was able to face Corona's pandemic and provided its services electronically for all customers with high quality and efficiency.

on the one hand and within the mechanization and process of internal action to develop the Company's strong technical infrastructure. High quality and efficiency.

### 4-10-3 Development of Risk Management:

The Company is keen to improve and develop its risk management by continuously holding periodic meetings and training courses for its employees to know the latest developments in finance risk management, which helps the Company's risk management to take the best decisions with least costs.

### 4-10-4 Enrichment of Customer Experience:

The Company aims to improve the quality of services provided to its customers to raise and improve their satisfaction. It has worked to provide an integrated contact center to receive and manage their inquiries through the latest technical systems to carry out financing transactions more quickly and to respond to customer inquiries and solve their problems within the maximum period. The Company also linked the customer care system with the application system or the complaints system for complaints received by the Company through social media, and putting standards, policies and agreements for the required levels of service. One of the most prominent advantages provided by the Company to its customers is the possibility of applying for mortgage and receiving inquiries via the Company's website. This in addition to the possibility of visiting any branch in the central, western and eastern region. After each contact, the client is asked to assess its satisfaction from the service provided as well as after completion of the financing to measure the levels of satisfaction and improve the quality of the customer service.

### 4-10-5 Increasing Awareness of the Trademark:

The Company has many marketing activities to increase awareness of its trademark and is an essential indicator of measuring the Company's access to as many customers and the Company's position among competitors. Therefore, the Company has been keen to provide the best financing solutions and present competitive advantages of its products. One of the most important means on which the Company relies to increase the awareness of the trademark is effective presence in various digital channels and participation in exhibitions and seminars specialized in real estate financing. As well as the conclusion of strategic conventions with several specialized agencies and institutions in the same area.

### 4-10-6 Development of Products and Services:

The Company is seeking to develop its current products based on the real estate market study and analysis of competitors to attract more customers as well as providing many new products compliant with the Islamic Sharia. The Company has introduced the following products during 2021 until the end of October 2021:

- Murabaha (retail and commercial financing)
- Off-plan sale (retail)
- Fixed Ijarah (Lease) (retail)
- Mortgage (Commercial Financing)

It is working to introduce a self-construction product (retail and commercial financing) before the end of 2021 as well as new products for the next year 2022 such as mortgage in Murabaha format and a financing product for land and loan.

The Company also would like to explain that until the date of this prospectus, there is no policy on research and development of new products and production methods used over the previous three fiscal years.

### 4-10-7 Setting up a Large and Stable Client Base:

The Company currently has a client base of more than 8000 clients as on 31 May 2021, and seeks to increase this number by targeting different segments of customers and providing products and services that suit their aspirations. Add to that, the conclusion of agreements with several sources to access to potential customers and promote our distinguished products.

### 4-10-8 Accept Deposits

Based on the decision of the Saudi Central Bank No. 42019124 dated 24/03/1442H (10/11/2020G) permitting the financing companies to accept financial deposits from savers, the Company works to study the feasibility of investment to accept deposits and then apply for the approval of the Central Bank.

## 4-11 Company's Departments and Sections

### 4-11-1 Business and Product Development Department:

The Product Development Department works on developing the Company's performance and keeping pace with the changes of the times through continuous research and study of the real estate market and analysis of the strengths and weaknesses between competitors. Also, it works on developing new products or upgrading existing products to meet the most competitive needs in the market as well as placing the Company at the most advanced competitive position. The Business Development team is also keen to study important aspects of everything related to marketing strategies, sales strategies and product offerings, as well as the importance of using the latest technology to raise the level of productivity. So, the most important developments are applied at a record speed to continue the development of the Company's performance and maintain its position in the real estate market, in addition to managing the relationship with the Company's strategic business partners.

### 4-11-2 Operations and IT Department

The Operations and Information Technology Department is concerned with technical development and support for all departments and sections to ensure workflow in accordance with internal policies, procedures and government legislation. Therefore, it works to modernize the Company's systems, provide the necessary reports and information, and enhance information security, which is one of the biggest challenges facing the business sector. This effective role of the Department contributes to raising the efficiency of performance and facilitating and accelerating the workflow.

### 4-11-3 Credit Department:

The Credit Department analyzes and evaluates all real estate financing applications submitted to the Company, checks the suitability of clients with credit policies, and issues final approvals for them. It also works on improving procedures and putting forward recommendations that contribute to developing workflow and reducing future risks to the Company.

### 4-11-4 Closing and Assignment Department:

Closing and Assignment Department is one of the most important elements of the Company and a major part of completing the work. This department is responsible for signing contracts with clients after clarifying all their terms and answering all inquiries, verifying that all credit requirements and conditions are met, and assigning and closing all financing requests quickly and accurately to achieve the Company's goals and enrich the customer's journey.

### 4-11-5 Evaluation and Guarantees Department:

It is the department concerned with evaluating and examining all real estate that clients wish to finance, and it is also concerned with examining, re-evaluating and maintaining real estate after financing. Three sections fall under the Evaluation Department as follows:

**Property Evaluation Section:** It is concerned with evaluating properties before financing to verify their fair market value and construction quality.
**Maintenance Section:** It is concerned with the assessment and treatment of damages that may occur to clients' properties after financing.
**Reclaimed Real Estate Section:** It is concerned with the requalification and maintenance of real estate recovered from clients and offering them in the real estate market.

### 4-11-6 Marketing Department:

The Marketing Department is concerned with the implementation of the Company's strategies and service it in the media by introducing the Company and its role in the real estate finance market. It conducts continuous research in the real estate market to identify goals and challenges, monitor products and competitive advantages and their attractiveness in the market and develop appropriate action plans to achieve the objectives.

The Marketing Department works with all departments to build and update promotional communication plans and provide support and assistance to achieve the goals, reach the largest possible segments and develop the financing portfolio. It is also concerned with cooperating and coordinating with governmental bodies and agencies and the private sector to disseminate awareness messages to educate customers in everything related to the Company's financing products, as well as to enable them to obtain them through the easiest means.

### 4-11-7 Customer Care Department:

The Customer Care Department serves more than seven thousand clients through the largest financing portfolio at the level of real estate financing companies. The policies and procedures of the Customer Care Department are constantly updated to comply with internal changes and legislation and to comply with the regulations, controls and circulars of the Central Bank related to customer service. The Department is keen to raise the levels of customer satisfaction by inquiring about their satisfaction with the service provided after each contact.

### 4-11-8 Risk Management Department:

Risk management is concerned with implementing the Company's plans related to credit risks, such as documenting credit relationships, keeping contracts, managing collection processes, and cyber security to ensure the protection of information and systems and create a safe work environment. The Department also ensures the quality of the credit portfolio and manages the general framework for risks, which includes identifying, measuring and correcting risks, and this includes managing operational, market, legal, reputational and liquidity risks, under the supervision of the Board of Directors and its committees, which contributes to achieving the Company's goals, on one hand, and fulfills the requirements of the Central Bank, on the other hand.

The Company seeks to manage credit risk by diversifying its lending portfolio to avoid concentration of risks specific to individuals or groups of customers in certain places or activities. The Department monitors the market value of the collaterals it obtains, during its review of the adequacy of the allowance for impairment losses. The Company periodically reviews its risk management policies and systems to reflect changes in market products and best practices.

### 4-11-9 Compliance Department

The Compliance Department works to ensure that the entity, with all its departments and employees, is constantly compliant with the laws, rules and regulations issued by the legislative authorities in respect to combating financial crimes, in particular money laundering and terrorist financing, in line with the objectives of Saudi Arabia for housing finance represented in creating a solid culture of compliance with laws and anti-money laundering.

The Department has set strict anti-money laundering policies aimed at ensuring the commitment of the Company and all its subsidiaries to follow the policies and procedures related to anti-money laundering and counter-terrorism financing. The Department is also concerned with preparing reports related to the Company's compliance with the regulations and laws and handing them over to the audit committee and the Board of Directors, as well as training employees on aspects of compliance and anti-money laundering and counter-terrorism financing.

### 4-11-10 Legal Department

The role of the Legal Department revolves around framing corporate governance in line with the provisions of the Companies Law, financing laws and regulations and the circulars, regulations and controls issued by the Central Bank. It will also be concerned with implementing the rules and regulations of the Capital Market Authority after the completion of the offering and listing of the Company's shares on Tadawul. Among the most important responsibilities of the Legal Department is to provide the necessary legal advice to all sections and departments of the Company, manage and follow up the cases assigned to it, and represent the Company before the judicial authorities through a highly qualified and experienced team. The Department actively contributes to the process of debt collection from defaulting clients by pleading before the Execution Court, the Public Judiciary and the Committee for the Resolution of Financing Disputes.

### 4-11-11 Human Resource Department

The Human Resources and Administrative Support Department sets strategic and operational plans to attract, develop and maintain the appropriate Saudi competencies. In addition to providing administrative support and assistance to all sectors of the Company. The Department also prepares training programs to develop the technical and leadership skills of its employees. The Department is also keen to raise the Saudization rates in all branches of the Company, which amounted to a total of 86%. It also developed its operations and increased its cadres by 30% at the end of 2020.

### 4-11-12 Finance Department

Finance Department is concerned with studying the best ways to use capital in order to maximize the market value of the Company and to maximize shareholders' wealth to achieve survival and sustainable growth. It also determines the Company's financial goals in the short, medium and long term, as well as preparing estimated budgets with revenues, expenses and cash flows, compiling financial statements and analyzing them in management reports, to assist the senior management in taking decisions and following corrective actions for plans and financial system.

### 4-11-13 Sales Department

The Sales Department seeks to achieve the Company's goals at all stages (monthly, quarterly and annually), present its products in the real estate finance market, and ensure the customer flow process by converting potential customers to qualified customers if they comply with the Company's policies, regulations and vision, to develop the financing portfolio. It monitors any changes that occur in the real estate finance market and notifies the concerned departments to carry out the necessary studies to keep pace with it. It is keen to represent the Company and attend forums, conferences and approved business sectors to display the Company's products and create new sales opportunities

### 4-11-14 Information Technology Department

The Department is interested in providing all services related to information technology, developing strategies and policies related to it for all sectors and departments of the Company; planning, implementing and supervising all projects related to applications at the Company level according to standards of technical excellence; providing computers and related devices such as (printers, scanners) and ensuring their operation at the required form and quality; Providing computer applications and software used throughout the Company; Providing, monitoring and affording support for the information technology and communications infrastructure, designing and maintaining the Company's internet system and website and updating them on an ongoing basis. Developing the strategy for technical connectivity with the relevant authorities, and setting the work program and executive plans, and supervising them in general to ensure that they are in line with the strategic objectives of the Company.

## 4-12 Latest Developments

The Company has updated its trademark and visual identity that reflects its growth strategy aiming to enable citizens to own their properties through diversified financing solutions that meet the needs of customers with ease and through the latest technologies.

In addition, Mr. Bandar bin Saeed Al-Ghamdi was appointed Chief Executive Officer in August 2020, succeeding Mr. Abdul-Ilah bin Saleh Al-Sheikh. Mr. Bandar Al-Ghamdi is a national expertise in finance and strategic development and planning of the banking sector. This appointment comes as part of the strategic plans that aim to achieve the targeted growth and support the Saudi executive competencies and experiences, and continue the achievements that have been realized during the last period, in line with the general objectives of the Company and the Government's policy and initiatives.

## 4-13 Business Continuity

There was no interruption or suspension in the Company's business that could have a material impact on its financial condition during the twelve (12) months preceding the date of this prospectus, and the Company does not intend to make any fundamental change in the nature of its business.

5

# Ownership Structure and Organizational Structure

# 5- Ownership Structure and Organizational Structure

## 5-1 Company Management

The Company has an organizational structure headed by the Board of Directors and supported by the Executive Management. And according to Article Eighteen (18) of the Company's articles of association, "the Company is managed by a Board of Directors consisting of (11) eleven members elected by the ordinary general assembly of shareholders for a period not to exceed (3) three years, after fulfilling the suitability requirements determined by the Saudi Central Bank, and obtaining a letter of no objection from it, and as an exception to this, the Founding Shareholders appointed the first Board of Directors for a period of three years. Also, each shareholder has the right to nominate himself or one or more other persons for the membership of the Board of Directors, within the limits of his ownership percentage in the capital.

The Ordinary General Assembly, in its meeting held on 28/03/1441H (corresponding to 25/11/ 2019G), elected a Board of Directors for the session that begins on 28 November 2019G for a period of three years. The Board consists of (11) eleven members, all of them are non-executive, and (4) of them are independent members.

The following committees emerge from the Board of Directors: The Audit Committee formed by the Company's General Assembly, whose members were approved by the Extraordinary General Assembly in its meeting held on 20/04/1443H (corresponding to 25/11/2021G), the Nominations and Remunerations Committee, Executive Committee, Risk and Credit Management Committee and Sharia Committee.

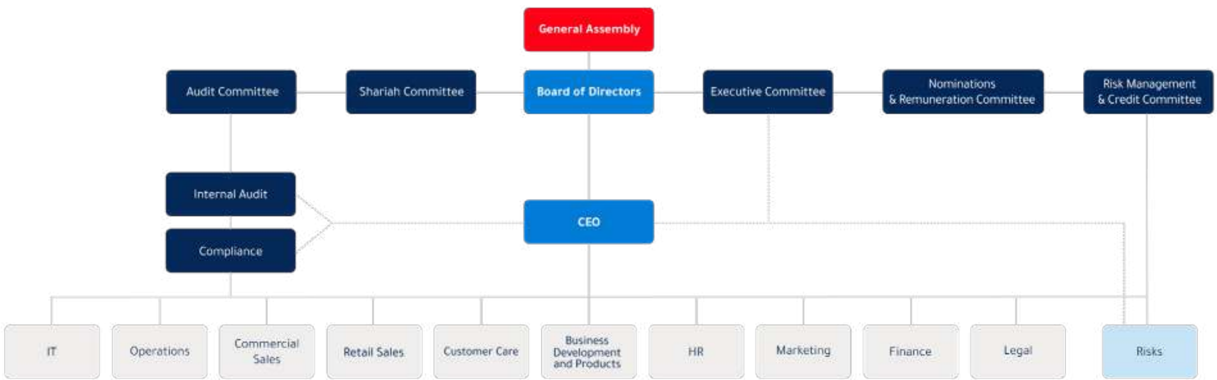
## 5-2 Organizational Structure of the Company

The following graphic shows the Company's committees and the organizational structure as of the date of this prospectus.

### 5-2-1 Organization Structure

**Overview**

Figure 5-1: Organizational Structure



## 5-2-2 Company Ownership Structure

Table 5-1: The structure of direct ownership in the Company before and after the offering:

| Shareholder | Before Offering | | | After Offering | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Ownership Percentage (%) | Share value (SAR) | Number of Shares | Ownership Percentage (%) | Share value (SAR) |
| Arab National Bank | 40,000,000 | 40% | 40,000,000 | 28,000,000 | 28% | 280,000,000 |
| Dar Al Arkan Real Estate Development Company | 15,000,000 | 15% | 15,000,000 | 10,500,000 | 10.50% | 105,000,000 |
| Kingdom of Installment Trading Company | 9,000,000 | 9% | 9,000,000 | 6,300,000 | 6.30% | 63,000,000 |
| Yousef bin Abdullah Al Shelash | 8,000,000 | 8% | 8,000,000 | 5,600,000 | 5.60% | 56,000,000 |
| Hethloul bin Saleh Al Hethloul | 6,000,000 | 6% | 6,000,000 | 4,200,000 | 4.20% | 42,000,000 |
| Tariq bin Mohammed Al Jarallah | 6,000,000 | 6% | 6,000,000 | 4,200,000 | 4.20% | 42,000,000 |
| International Finance Corporation | 5,000,000 | 5% | 5,000,000 | 3,500,000 | 3.50% | 35,000,000 |
| Abdullatif bin Abdullah Al-Shalash | 5,000,000 | 5% | 5,000,000 | 3,500,000 | 3.50% | 35,000,000 |
| Inmaa Al Madaen Company | 4,000,000 | 4% | 4,000,000 | 2,800,000 | 2.80% | 28,000,000 |
| Daaim Al Khaleej Company | 2,000,000 | 2% | 2,000,000 | 1,400,000 | 1.40% | 14,000,000 |
| Public | - | - | - | 30,000,000 | 30% | 300,000,000 |
| **Total** | **100,000,000** | **100%** | **1,000,000,000** | **100,000,000** | **100%** | **1,000,000,000** |

## 5-2-3 Capital Developments

On 01/12/1428H (corresponding to 11/12/2007G), the Company was established as a closed Saudi joint stock company, with a capital of (SAR 2,000,000,000) two billion Saudi riyals, divided into (200,000,000) two hundred million cash shares. The value of each share is (SAR 10) ten Saudi Riyals. Since the Company's paid-up capital amounted to (SAR 800,000,000) eight hundred million Saudi riyals, the value of the subscribed shares remained unpaid at an amount of (SAR 1,200,000,000) one billion and two hundred million Saudi riyals. The following table shows the ownership details

Table 5-2: Ownership Structure as of 01/12/1428H (corresponding to 11/12/2007G)

| Shareholder | Contribution percentage | Number of Shares | Contribution value in the capital |
|---|---|---|---|
| Kingdom of Installment Trading Company | 9% | 18,000,000 | 180,000,000 |
| Dar Al Arkan Real Estate Development Company | 15% | 30,000,000 | 300,000,000 |
| Arab National Bank | 40% | 80,000,000 | 800,000,000 |
| International Finance Corporation | 5% | 10,000,000 | 100,000,000 |
| Yousef bin Abdullah bin Shelash Al Shelash | 8% | 16,000,000 | 160,000,000 |
| Tariq bin Mohammed bin Ali Al Jarallah | 6% | 12,000,000 | 120,000,000 |
| Hethloul bin Saleh bin Mohammad Al Hethloul | 6% | 12,000,000 | 120,000,000 |
| Abdullatif bin Abdullah bin Shalash Al Shalash | 5% | 10,000,000 | 100,000,000 |
| Inmaa Al Madaen Company | 4% | 8,000,000 | 80,000,000 |
| Daaim Al Khaleej Company | 2% | 4,000,000 | 40,000,000 |
| **Total** | **100%** | **200,000,000** | **2,000,000,000** |

On 16/07/1438H (corresponding to 13/04/2017G), the Central Bank of Saudi Arabia, based on Article 25 of the Finance Companies Control Law, approved a request to amend the Company's capital to pay the remaining unpaid capital by transferring (200,000,000) two hundred million Saudi riyals from the retained earnings account to the capital account so that the capital is reduced and the Company's capital becomes (SR 1,000,000,000) one billion Saudi riyals fully paid, and the unpaid shares of SR 1,000,000,000 are cancelled. On 06/08/1439H corresponding to 22/04/2018G. the Articles of Association have been amended so that the capital becomes SR 1,000,000,000. The following table shows the ownership details

Table 5-3: Ownership Structure as of 16/07/1438H (corresponding to 13/04/2017G)

| Shareholder | Contribution percentage | Number of Shares | Contribution value in the capital |
|---|---|---|---|
| Kingdom of Installment Trading Company | 9% | 9,000,000 | 90,000,000 |
| Dar Al Arkan Real Estate Development Company | 15% | 15,000,000 | 150,000,000 |
| Arab National Bank | 40% | 40,000,000 | 400,000,000 |
| International Finance Corporation | 5% | 5,000,000 | 50,000,000 |
| Yousef bin Abdullah bin Shelash Al Shelash | 8% | 8,000,000 | 80,000,000 |
| Tariq bin Mohammed bin Ali Al Jarallah | 6% | 6,000,000 | 60,000,000 |

| Shareholder | Contribution percentage | Number of Shares | Contribution value in the capital |
|---|---|---|---|
| Hethloul bin Saleh bin Mohammad Al Hethloul | 6% | 6,000,000 | 60,000,000 |
| Abdullatif bin Abdullah bin Shalash Al Shalash | 5% | 5,000,000 | 50,000,000 |
| Inmaa Al Madaen Company | 4% | 4,000,000 | 40,000,000 |
| Daaim Al Khaleej Company | 2% | 2,000,000 | 20,000,000 |
| **Total** | **100%** | **100,000,000** | **1,000,000,000** |

## 5-3 Members of the Board of Directors and the Secretary of the Board of Directors

The Company is managed by a Board of Directors consisting of 11 members elected by the ordinary general assembly of shareholders for a period not to exceed three years, after fulfilling the suitability requirements determined by the Central Bank of Saudi Arabia and obtaining a letter from it stating its no objection. As an exception to this, the Founding Shareholders appointed the first Board of Directors for a period of three years. Each shareholder has the right to nominate himself or one or more other persons for membership in the Board of Directors, within the limits of his ownership percentage in the capital.

The following table shows the names of the members of the Board of Directors:

Table 5-4: The following table shows the members of the Board of Directors and the Secretary of the Board of Directors:

| Name | Position | Nationality | Membership status | Direct Ownership (%) | | Indirect Ownership (%) | | Date of Appointment |
|---|---|---|---|---|---|---|---|---|
| | | | | Before Offering | After Offering | Before Offering | After Offering | |
| Mr. Yousef Abdullah Al Shelash | Chairman of Board of Directors | Saudi | Non - Independent Non-executive | 8.00 | 5.60 | 0.59 | 0.42 | 28/11/2019G (Chairman of Board of Directors) |
| Mr. Obaid bin Abdullah Al-Rasheed | Deputy Chairman of the Board | Saudi | Non - Independent Non-executive | - | - | - | - | 28/11/2019G (Member of the Board of Directors) 17/09/1442H (Deputy Chairman of the Board of Directors) 02/04/2020G (Member of the Nomination Committee) |
| Mr. Othman bin Khairi Bader | Member of the Board of Directors | Saudi | Non - Independent Non-executive | - | - | - | - | 28/11/2019G (Member of the Board of Directors) |

| Name | Position | Nationality | Membership status | Direct Ownership (%) | | Indirect Ownership (%) | | Date of Appointment |
|---|---|---|---|---|---|---|---|---|
| | | | | Before Offering | After Offering | Before Offering | After Offering | |
| Mr. Ayham bin Mohammad Al Yousef | Member of the Board of Directors | Saudi | Independent Non-executive | - | - | - | - | 28/11/2019G (Member of the Board of Directors) 09/06/1441H (Chairman of Executive Committee) 02/04/2020G (Chairman of Nomination Committee ) |
| Mr. Abdullatif bin Abdullah Al Shalash | Member of the Board of Directors | Saudi | Non-Independent Non-executive | 5.00 | 3.50 | - | - | 28/11/2019G (Member of Board of Directors) |
| Mr. Kamal bin Amin Khader | Member of the Board of Directors | Saudi | Non-Independent Non-executive | - | - | - | - | 28/11/2019G (Member of the Board of Directors) 09/06/1441H (Member of the Executive Committee) |
| Mr. Ziad Naim Al Shaar | Member of the Board of Directors | Lebanese | Non-Independent Non-executive | - | - | - | - | 28/11/2019G (Member of the Board of Directors) 09/06/1441H (Member of the Executive Committee) |
| Dr. Ahmed bin Saleh Al Dehailan | Member of the Board of Directors | Saudi | Non-Independent Non-executive | - | - | - | - | 28/11/2019G (Member of the Board of Directors) 09/06/1441H (Member of the Executive Committee) 08/04/2020G (Chairman of the Audit Committee) |
| Mr. Faris Ibrahim Rashid Al-Rashid Al-Humaid | Member of the Board of Directors | Saudi | Independent Non-executive | - | - | - | - | 28/11/2019G (Member of the Board of Directors) 22/04/2020G (Chairman of the Risk and Credit Committee) |
| Mr. Saud Abdulaziz Al Guasiyer | Member of the Board of Directors | Saudi | Independent Non-executive | - | - | - | - | 25/11/2021G (Member of the Board of Directors) |
| Mr. Ahmed bin Abdullah Al Sheikh | Member of the Board of Directors | Saudi | Independent Non-executive | - | - | - | - | 25/11/2021G (Member of the Board of Directors) |

The Secretary of the Board of Directors is Mr. Abdul Rahman Al-Qaeed, who was temporarily assigned to this position by the Board of Directors on 28 September 2021G and he does not own any shares in the Company

### 5-3-1 Responsibilities of the Chairman of the Board of Directors

After obtaining a written no-objection letter from the Central Bank of Saudi Arabia and after the approval of the competent authorities, the Board of Directors shall appoint from among its members a Chairman of the Board, and the Company may appoint a Managing Director from among its members, and it is not permissible to combine the position of the Chairman of the Board of Directors with any other executive position in the Company. The Chairman of the Board shall have the powers that enable him to perform his task, in a manner that does not conflict with the provisions of the financing systems and their implementing regulations. The powers of the Chairman of the Board of Directors include, but are not limited to:

- Representing the Company and signing in its name and on its behalf before notaries public, all official agencies, government departments, ministries, public and private bodies and institutions, individuals, companies, banks and others.
- Decide on all the Company's affairs within the limits stipulated in this bylaw.
- Entering the Company as a partner in companies and signing its articles of incorporation and amendment decisions of all kinds, whether by increasing or decreasing the capital, modifying the purposes, exiting one of the partners, or amending any of the articles of incorporation.
- Liquidation of the companies in which the Company participates, in front of the Ministry of Commerce and Investment, the General Investment Authority, the notary public and other relevant bodies.
- Opening branches, appointing and dismissing managers, obtaining and writing off commercial records and obtaining licenses.
- Signing all agreements, contracts, tenders, bids, decisions, minutes, records, bank accounts and others.
- Authority to acknowledge and borrow any amount, opening and closing accounts, withdrawing and depositing and opening credits.
- The right to defend the Company, litigation, plead, defend, request and accept arbitration, appoint arbitrators and experts and dismiss them, represent the Company before them and in any lawsuits filed by or against the Company, file and hear cases before all Sharia courts, Execution Courts, Board of Grievances, all judicial and administrative bodies of various degrees and titles, and committees for the settlement of banking and financial disputes, labor offices and labor dispute settlement bodies of all degrees, and to recognize every right of the Company.
- The right to contract with lawyers and determine their fees as he deems appropriate for the interests of the Company, submit and accept memoranda, litigation and reply, request oaths, reconciliation, clearance, accept, object and appeal to judgments and decisions and request their implementation.
- Handing over and receiving all papers, transactions, judgments, decisions, all documents and registration certificates in the Commercial Register, and signing all that is necessary in the name and on behalf of the Company.
- The right to buy and sell shares and stocks in the companies in which the Company participates, receive its profits and sign on that, accept the shares assigned to the Company or partners and assign the shares belonging to the Company in the companies in which it participates.
- The right to sell, buy, transfer, accept and receive the price, deliver the price, take possession of the mortgage, redeem it, extract the sukuk on all the Company's property, prove what must be proven, sign on behalf of the Company in this regard, and request the amendment of the title deeds with their boundaries, area, deletion and addition to them.
- The right to invest the Company's funds and operate them in the local and international financial markets.
- The right to sign on all of the above mentioned and to delegate to others in all or some of the aforementioned powers, and he the right to grant others the right to delegate to others.

### 5-3-2 Board Responsibilities

In a manner that does not conflict with what is stated in the financing regulations and their Implementing Regulations and with due regard to the powers established for the general assembly, the Board of Directors shall have the widest powers in managing the Company in order to achieve its purposes and manage its affairs. To this end, the Board has the right to participate in other companies and dispose of their assets, properties, and real estate. The Boarad has also the right to purchase, accept and pay the price, mortgage, release the mortgage, sell, discharge, collect the price, deliver the price, combine and sort the properties and deeds of the Company. The minutes of the Board of Directors and the rationale for its decision to act must observe the following conditions:

- That the board must specify in the sale decision the reasons and justifications for it.
- The sale price should be close to the sale price of similar items.
- That the sale must be present, except in the cases discrete by the Board and with sufficient guarantees.
- This act shall not result in the discontinuation of some of the Company's activities or the imposition of other obligations.

The Board of Directors may also enter into loans with government financing funds and institutions, regardless of their duration, and may contract commercial loans, taking into account the following conditions for entering into loans with a term of more than three years:

- That the Board of Directors specify in its decision the aspects of using the loan and how to repay it.
- To take into account in the terms of the loan and the guarantees provided to it, not to harm the Company, its shareholders, and the general guarantees of the creditors.

The Board of Directors shall also have the right to compromise, waive, contract, abide and obligate in the name and on behalf of the Company. The Board of Directors has the right to carry out all acts and actions that would achieve the objectives of the Company.

The Company's Board of Directors, in the cases it discreted, shall have the right to discharge the Company's debtors from their obligations in accordance with what achieves its interests, provided that this is included in the minutes of the Board of Directors include the rationale for its decision and the following conditions shall be observed:

- The discharge must be at least one full year after the debt was originated
- The discharge shall be for a specified amount as a maximum per year for one debtor.
- Discharge is a right for the board which may not be delegated.

Provided that the discharge shall not be applied to all cases related to discharge of a member of the Board of Directors, shareholders or any of the parties related to the Company, whether this relationship is direct or indirect.

The Board of Directors may delegate or authorize on its behalf, within the limits of its competencies, one or more of its members or third parties to take a specific action or behavior or to perform a specific act or actions.

### 5-3-3 Responsibilities of the Secretary of the Board of Directors

The Board of Directors appoints a secretary to be chosen from among its members or from others. The secretary is responsible, according to the Company's article of association, for recording the deliberations and decisions of the board and to record the decisions emanating from these meetings, in addition to exercising any other functions entrusted to him by the Board of Directors, the Board of Directors determines his remuneration by virtue of a decision from the Board of Directors. The Corporate Governance Regulations also specify additional responsibilities for the Secretary, which include, but are not limited to, the following:

- Providing the members of the Board of Directors with the board's agenda, work papers, documents and information related to it, and any additional documents or information requested by any board member related to the topics included in the meeting agenda.

- Coordination between the executive management and the Board of Directors regarding the information presented at the Board of Directors' meeting.
- Documenting the meetings of the Board of Directors and keeping the minutes of the meetings of the Board of Directors.
- Documenting and keeping the decisions of the Board of Directors and voting results.
- Recording the attendance of the Board of Directors meeting and signing the minutes of the meeting by all the attendees.
- Practicing other roles as delegated by members of the Board of Directors.
- Keeping the reports submitted to the Board of Directors and the reports prepared by the Board of Directors.
- Verifying that the members of the Board of Directors adhere to the procedures approved by the Board of Directors.
- Informing the members of the Board of Directors of the dates of the Board of Directors' meetings sufficiently before the date set for the meeting.
- Presenting draft minutes of the minutes to the members of the Board of Directors to receive their input before signing them.
- Verifying that the members of the Board of Directors have full and prompt access to a copy of the minutes of the Board of Directors' meetings and information and documents related to the Company.
- Coordination between members of the Board of Directors.
- Organizing a record of disclosures of the members of the Board of Directors and the Executive Management in accordance with the provisions of Article (92) ninety-two of the Corporate Governance Regulations.
- Providing assistance and advice to members of the Board of Directors.

### 5-3-4 Biographies of the members of the Board of Directors and the Secretary of the Board

The following are the experiences, qualifications and current positions of the members of the Board of Directors and the Secretary of the Board:

- Yousef Abdullah Al Shelash, Chairman of the Board of Directors

| Name | Yousef bin Abdullah bin Shelash Al Shelash |
|---|---|
| Nationality | Saudi |
| Age | 54 |
| position | Chairman of Board of Directors. |
| Date of appointment to the Board (current session) | 28/11/2019G |
| Academic and professional qualifications | • Bachelor's degree in Islamic law - Imam Mohammad bin Saud Islamic University in 1991G.<br>• Diploma of the Systems Studies Program for the Bureau of Investigation and Public Prosecution - from the Institute of Public Administration in 1993G. |
| current positions | • Chairman of the Board of Directors of the Company from 2019G to date.<br>• Chairman of the Board of Directors of Dar Al-Arkan Real Estate Development Company, a public joint stock company, working in the field of real estate management and development, since its establishment in 2000G until to date.<br>• Chairman of the Board of Directors of Bank Al-Khair, a closed Bahraini joint stock company, working in the field of banking, since its establishment in 2004G until 30/01/2022G.<br>• Chairman of the Board of Directors of Al-Khair Capital Saudi Company, a closed joint stock company, working in the field of dealing, custodianship, investment management, operating funds, arranging and providing advice in securities business since its establishment in 2009G to date.<br>• Chairman of the Board of Directors of Dar Al-Arkan Real Estate Company, a closed joint stock company, working in the field of real estate, from 9/9/2020G to date. |
| Previous professional experience | • Member of the Board of Directors of Dar Al-Arkan Real Estate Company, Bank Al-Khair in Bahrain and Al-Khair Capital. |

- Obaid Abdullah Al-Rasheed, Deputy Chairman of the Board of Directors

| Name | Obaid bin Abdullah bin Obaid Al-Rasheed |
|---|---|
| Nationality | Saudi |
| Age | 64 |
| position | Member of the Board of Directors Deputy Chairman of the Board of Directors - Member of the Nominations and Remunerations Committee. |
| Date of appointment to the Board (current session) | 28/11/2019G |

| Name | Obaid bin Abdullah bin Obaid Al-Rasheed |
|---|---|
| Date of appointment to the Nomination and Remuneration Committee (current session) | 02/04/2020G |
| Academic and professional qualifications | • Bachelor of Business Administration from San Jose State University, USA, in 1983G. |
| current positions | • Deputy Chairman of the Board of Directors of the Company, from 2021G to date.<br>• Member of the Company's Nominations and Remunerations Committee, from 2020G to date.<br>• Member of the Board of Directors of the Arab National Bank, a public joint stock company, working in the field of banking, from 2021G to date.<br>• CEO of the Arab National Bank, a public joint stock company, working in the field of banking, from 2021G to date.<br>• Deputy Chairman of the Board of Directors of the Saudi Chemical Company, a public joint stock company, working in the field of civil and military explosives and related products from 2019G to date.<br>• Member of the Board of Directors of Dr. Sulaiman Al Habib Medical Services Group, a public joint stock company, working in the field of establishing and managing hospitals, medical centers, dispensaries, laboratories, medical analyses, radiology, dental clinics and pharmacies from 2015G to date.<br>• Chairman of the Nominations Committee of Dr. Sulaiman Al Habib Group for Medical Services Holding, a public joint stock company, working in the field of establishing and managing hospitals, medical centers, dispensaries, laboratories, medical analyses, radiology, dental clinics and pharmacies from 2015G to date.<br>• Chairman of the Board of Directors of Al-Arabi Heavy Equipment Lease Company, a closed joint-stock company, working in the field of heavy-duty equipment lease, from 2010G to date. |
| Previous professional experience | • Deputy Managing Director of the Arab National Bank, a public joint stock company, working in the field of banking, from 2010G to 2021G.<br>• Member of the Board of Directors of the Saudi Chemical Company, a public joint stock company, working in the field of civilian and military explosives and related products, from 2013G to 2019G. |

- Ayham Mohammad Al Yousef, Board Member

| Name | Ayham bin Mohammad Al-Yousef |
|---|---|
| Nationality: | Saudi |
| Age: | 51 |
| Position: | • Member of the Board of Directors.<br>• Chairman of the Executive Committee.<br>• Chairman of the Nominations and Remunerations Committee. |
| Date of appointment to the Board (current session) | 28/11/2019G |
| Date of appointment to the Executive Committee (current session) | 03/02/2020G |
| Date of appointment to the Nomination and Remuneration Committee (current session) | 02/04/2020G |

| Name | Ayham bin Mohammad Al-Yousef |
|---|---|
| Academic and professional qualifications | • Bachelor of Industrial Management, King Fahd University of Petroleum and Minerals, Kingdom of Saudi Arabia in 1994G. |
| current positions | • Member of the Board of Directors of the Company from the year 2020G until to date.<br>• Member of the Board of Directors of the Saudi Marketing Company, a public joint stock company, working in the field of wholesale and retail trade in foodstuffs from 2017G to date.<br>• Member of the Board of Directors of the Gulf Union Cooperative Insurance Company, a public joint stock company, working in the field of cooperative insurance from 2016G to date. |
| Previous professional experience | • CEO of the Real Estate Development Fund, a government fund, working in the field of finance, from 2017G to 2018G.<br>• Deputy Chairman of the Board of Directors of the Real Estate Development Fund, a government fund, working in the field of finance, from 2017G to 2018G.<br>• Adviser to the Minister of Housing, a government agency, working in the field of organizing and facilitating a balanced and sustainable housing environment, from 2017G to 2018G.<br>• Chief Executive Officer of Albilad Capital, a closed joint stock company, working in the field of dealing, custodianship, investment management, operating funds, arranging and providing advice in securities business, from 2011G to 2015G. |

- Abdullatif Abdullah Al Shalash, Member of the Board of Directors

| Name | Abdullatif Abdullah Al Shalash |
|---|---|
| Nationality | Saudi |
| Age | 50 |
| position | Member of the Board of Directors. |
| Date of appointment to the Board (current session) | 28/11/2019G |
| Academic and professional qualifications | • Bachelor of Science in Leadership and Supervision from Purdue University, Indiana, USA, 2001G. |
| Current positions | • Member of the Company's Board of Directors from 2007G to date.<br>• Member of the Board of Directors of Al-Khair Capital Saudi Company, a closed joint stock company, working in the field of dealing, custodianship, investment management, operating funds, arranging and providing advice in securities business, from 2009G to date. |
| Previous professional experience | • Member of the Board of Directors of Bank Al-Khair, a Bahraini closed joint stock company, working in the field of banking, from 2004G to 2019G.<br>• Member of the Board of Directors of Dar Al-Arkan Real Estate Development Company, a public joint stock company, working in the field of real estate management and development, from 2005G to 2019G.<br>• Managing Director of Dar Al Arkan Real Estate Development Company, a public joint stock company, working in the field of real estate management and development from 2007G to 2019G.<br>• Member of the Board of Directors of Tazur Company, a Bahraini closed joint stock company, working in the field of insurance, from 2007G to 2020G. |

- Kamal Amin Khader, Board Member

| Name | Kamal Amin Khader |
|---|---|
| Nationality | Saudi |
| Age | 54 |
| position | Member of the Board of Directors - Member of the Executive Committee. |
| Date of appointment to the Board (current session) | 28/11/2019G |
| Date of appointment to the Executive Committee (current session) | 03/02/2020G |
| Academic and professional qualifications | • Bachelor's degree in Business Administration from the University of Richmond, United Kingdom in 1989G.<br>• MBA from the University of Liverpool, UK, in 2011G. |
| current positions | • Member of the Company's Board of Directors from 2019G to date.<br>• Member of the Executive Committee of the Company from the year 2020G until to date.<br>• General Manager of Risk Management at Arab National Bank, a public joint stock company, working in the field of banking, from 2018G to date.<br>• Member of the Board of Directors of SIMAH Credit Information Company, a closed joint stock company, working in the field of credit information system, from 2020G until to date.<br>• Member of the Audit Committee of SIMAH Credit Information Company, a closed joint stock company, working in the field of credit information system, from 2020G until to date. |
| Previous professional experience | • Head of Corporate Banking Group at Banque Saudi Fransi, a public joint stock company, working in the field of banking, from 2012G to 2018G.<br>• Risk Manager and Banking Group Officer at Banque Saudi Fransi, a public joint stock company, working in the field of banking, from 2006G until 2012G. |

- Ziad Naim Al-Shaar, Member of the Board of Directors

| Name | Ziad Naim Ammar Al Shaar |
|---|---|
| Nationality | Lebanese |
| Age | 52 |
| position | Member of the Board of Directors and Member of the Executive Committee |
| Date of appointment to the Board (current session) | 28/11/2019G |
| Date of appointment to the Executive Committee (current session) | 28/11/2020G |
| Academic and professional qualifications | • Bachelor of Science from the American University of Beirut in 1990G<br>• Master's degree in Commerce and Business Administration from the American University of Beirut in 1998G |

| Name | Ziad Naim Ammar Al Shaar |
|---|---|
| current positions | • Member of the Company's Board of Directors from 2019G to date<br>• CEO of Kwara Holding Company, a limited liability company, working in the field of real estate, from 2019G to date<br>• Member of the Board of Directors of Dar Al-Arkan Real Estate Company, a closed joint stock company, working in the field of real estate, from 2020G to date |
| Previous professional experience | • CEO of Emaar Company, an Emirati public joint stock company, working in the field of real estate management and development from 2018G to 2019G<br>• CEO of Dar Al-Arkan Real Estate Development Company, a public joint stock company, working in the field of real estate management and development from 2017G to 2019G<br>• Member of the Board of Directors of Dar Al Arkan Real Estate Development Company, a public joint stock company, working in the field of real estate management and development from 2018G to 2019G<br>• Member of the Board of Directors of Damac Real Estate Company, an Emirati public joint stock company, working in the field of real estate management and development from 2005G to 2017G<br>• CEO of Fattal Holding Company, a Lebanese closed joint stock company, working in the field of distributing food, beverage and pharmaceutical products in Lebanon, Iraq and Syria from 1993G to 2005G |

- Ahmed Saleh Al Dehailan, Board Member

| Name | Ahmed bin Saleh bin Salman Al Dehailan |
|---|---|
| Nationality | Saudi |
| Age | 51 |
| Position | • Member of the Board of Directors - Member of the Executive Committee - Member of the Audit Committee |
| Date of Appointment to the Board (Current Session) | 28/11/2019G |
| Date of Appointment to the Audit Committee (Current Session) | 08/04/2020G |
| Date of Appointment to the Executive Committee (Current Session) | 03/02/2020G |
| Academic And Professional Qualifications | • BA in Accounting from Al-Imam Mohammad Ibn Saud Islamic University, Kingdom of Saudi Arabia in 1992G.<br>• Master's degree in Accounting from Miami University, Florida, USA in 1997G.<br>• Ph.D. in Accounting and Finance from Cardiff University, United Kingdom in 2004G. |

| Name | Ahmed bin Saleh bin Salman Al Duhailan |
|---|---|
| Current Positions | • Lecturer at Al-Imam Mohammad Ibn Saud Islamic University, a Saudi government university, working in the field of human development through rendering various study programs, from 2000G to date.<br>• Member of the Board of Directors of Dar Al-Arkan Properties Company, a closed joint stock company, working in the field of real estate, from 2019G to date.<br>• Chairman of the Board of Directors of T'azur Takaful Insurance Company, a Kuwaiti closed shareholding company, working in the field of Takaful insurance, from 2011G to date.<br>• Chairman of the Board of Directors of T'azur Insurance Company, a Bahraini closed joint stock company, working in the field of insurance in 2020G to date.<br>• Member of the Board of Directors of PFC Holdings Group, a Bahraini company with limited liability, working in the financial field from 2010G to date.<br>• Chairman of the Audit and Risk Committee of PFC Holdings Group, a Bahraini limited liability company, working in the financial field from 2010G to date.<br>• Member of the Board of Directors of Bank Al-Khair, a Bahraini closed joint stock company - working in the field of banking, from 2011G until 30/01/2022G.<br>• Chairman of the Audit Committee at Bank Al-Khair, a Bahraini closed joint stock company, working in the field of banking, from 2011G until 30/01/2022G. |
| Previous Professional Experience | • Teaching Assistant at the College of Islamic Sharia in Al-Ahsa, a government college, working in the field of education, from 1994G to 1995G.<br>• Lecturer at Imam Mohammad bin Saud University in Al-Ahsa, a public university, working in the field of education, from 1997G to 2000G. |

- Faris Ibrahim Rashid Al-Rashid Al-Humaid, Board Member

| Name | Faris Ibrahim Rashid Al-Rashid Al-Humaid |
|---|---|
| Nationality | Saudi |
| Age | 50 |
| position | Member of the Board of Directors and Chairman of the Risk and Credit Management Committee. |
| Date of appointment to the Board (current session) | 28/11/2019G |
| Date of appointment to the Risk and Credit Committee (current session) | 22/04/2020G |
| Academic and professional qualifications | • Bachelor's degree in Computer Science from King Saud University, Kingdom of Saudi Arabia in 1994G.<br>• Entrepreneur Development Program, Selon School of Management, Massachusetts Institute of Technology, Cambridge, USA, 2009G.<br>• The Oxford Program for Advanced Leadership and Management, from Oxford University, Oxford, United Kingdom, in 2011G.<br>• Certificate of Board of Directors Institute, Institute of Board Members, Kingdom of Saudi Arabia, 2015G. |

| Name | Faris Ibrahim Rashid Al-Rashed Al-Humaid |
|---|---|
| Current positions | • Member of the Company's Board of Directors from 2019G to date.<br>• Chairman of the Company's Risk and Credit Management Committee from 2020G to date.<br>• Co-founder of Al Sanad Digital Communications and Information Technology Company, a closed joint stock company, working in the field of financing products, from 2019G to date.<br>• Co-founder of Sabbar Company, a limited liability company, working in the field of employment, from 2019G to date.<br>• Chairman of the Board of Directors of Derayah Ventures Fund, a private fund, working in the investment field, from 2019G to date.<br>• Chairman of the Board of Directors of the Czech Center for Physiotherapy and Rehabilitation, a closed joint stock company, working in the field of health care, from 2018G to date.<br>• Member of the Board of Directors, and Chairman of the Nominations and Remunerations Committee of Abdullah bin Abdulaziz Al-Rajhi and Sons Holding Company, a closed joint stock company, working in the field of real estate, from 2018G to date.<br>• Founder and Chairman of the Board of Custodians of Wateen Endowment Foundation, an endowment foundation, working in the field of blood donation, from 2018G to date.<br>• Founding partner of Hala Trading Company (formerly Halala), a limited liability company, working in the field of financial technology, from 2018G to date.<br>• Member of the Board of Directors, Chairman of the Nominations and Remunerations Committee and Member of the Executive Committee of Haj Ghazi Ibrahim Shaker Company, a public joint stock company, working in the field of trade, from 2016G to date.<br>• Member of the Board of Directors and a member of the Nominations and Remunerations Committee and Chairman of the Compliance and Risks Committee at Derayah Financial Company, a closed joint stock company, operating in the financial sector, from 2013G to date.<br>• Founder and Chairman of the Board of Trustees of Oqal, an endowment foundation, working in the field of providing opportunities for founders of pioneering startups from 2011G to date.<br>• Member of the Board of Directors of the Ibrahim Al-Rashid Sons Agricultural Company, a closed joint stock company, working in the field of agricultural and animal production, from 2009G to date. |
| Previous professional experience | General Manager of Nal Investment Company, a limited liability company, working in the field of investment, from 2008G to 2018G. |

- Othman Khairi Abdulhaleem Bader, Member of the Board of Directors

| Name | Othman Khairi Abdulhaleem Bader |
|---|---|
| Nationality | Saudi |
| Age | 52 |
| Position | Member of the Board of Directors. |
| Date of appointment to the Board (current session) | 28/11/2019G |
| Academic and professional qualifications | • Bachelor's degree, Industrial Management Sciences from King Fahd University of Petroleum and Minerals, Kingdom of Saudi Arabia in 1993G. |

| Name | Othman Khairi Abdulhaleem Bader |
|---|---|
| Current positions | • Member of the Company's Board of Directors from 2019G to date.<br>• Head-Designate of retail banking of the Arab National Bank, a public joint stock company, working in the field of banking, from 2021G to date. |
| Previous professional experience | • Head of Retail Banking Products at Arab National Bank, a public joint stock company, working in the banking field, from 2014G to 2021G.<br>• Sales Manager at Arab National Bank, a public joint stock company, working in the field of banking, from 2010G to 2014G. |

- Saud bin Abdulaziz bin Jassim Al Guasiyer, Board Member

| Name | Saud Abdulaziz Jassim Al Guasiyer |
|---|---|
| Nationality | Saudi |
| Age | 58 |
| Position | Member of the Board of Directors |
| Date of appointment to the Board (current session) | 25/11/2021G |
| Academic and professional qualifications | • BA in Architectural Engineering, from King Saud University in 1987G. |
| Current positions | • Member of the Company's Board of Directors from 2021G to date.<br>• Founding and Executive Director of Amjaal Real Estate Development Company, a closed joint stock company, working in the field of real estate development from 2012G to date. |
| Previous professional experience | • Executive Director of Dar Al Arkan Real Estate Company, a public joint stock company, working in the field of real estate management and development, from 2004G to 2011G.<br>• General Manager of Projects and Business Development for Fama Group Holding Company, a closed joint stock company, working in the field of investment from 1995G to 2004G.<br>• The Royal Commission for Jubail and Yanbu, a governmental body, working in the field of development from 1989G until 1995G, when the following positions (jobs) were filled:<br>– General Manager of Jubail Project<br>– Director of the Construction Department of the Royal Commission for Jubail and Yanbu<br>– Group Manager<br>• Saif Noaman Company from 1987G to 1989G, when the following positions were filled:<br>– Marketing Engineer<br>– production engineer<br>– Site engineer |

- Ahmed bin Abdullah bin Abdulaziz Al Sheikh, Board Member

| Name | Ahmed Abdullah Abdulaziz Al Sheikh |
|---|---|
| Nationality | Saudi |
| Age | 53 |
| Position | Member of the Board of Directors |
| Date of appointment to the Board (current session) | 25/11/2021G |
| Academic and professional qualifications | • Bachelor of Business Administration, Accounting, from King Saud University in Riyadh, 1991G.<br>• Received a number of intensive training courses at the US Federal Reserve Bank in New York, the US Federal Reserve Bank in Washington, the Financial Stability Board in Basel (Switzerland), the World Bank (USA), the International Monetary Fund (USA), and Harvard Business School (USA). INSEAD Global Institute of Business Administration (France) and IMD University (Switzerland). |
| Current positions | • Member of the Company's Board of Directors from 2021G to date.<br>• Member of the Board of Directors of the National Housing Company, a government company, working in the field of housing, from 2021G to date.<br>• Chairman of the Audit Committee of the Non-Oil Revenue Center, a government center, working in the field of non-oil revenues, from 2021G to date. |
| Previous professional experience | • Senior advisor to the Governor of the Central Bank of Saudi Arabia, a government agency, working in the field of regulating financial sectors, issuing and managing currency, setting and implementing monetary and financial stability policies from 2019G until 2021G.<br>• Member of the Board of Directors of the General Organization for Social Insurance, a government agency, working in the field of caring for workers in the private sector and workers on wages in the government sector, from 2018G to 2021G.<br>• Member of the Executive Committee of the General Organization for Social Insurance, a government agency, working in the field of caring for workers in the private sector and workers on wages in the government sector, from 2018 to 2021.<br>• Secretary of the Financial Committee at the Saudi Royal Court, a government entity, from 2017G until 2021G.<br>• Member of the Council of Economic and Development Affairs, a government council, working in the field of assisting the state in unifying its trends in all matters related to economic and development affairs, from 2017G to 2021G.<br>• Member of the Board of Directors of the Non-Oil Revenue Center, a government center, working in the field of non-oil revenues, from 2017G to 2021G.<br>• Deputy Governor for Supervision of the Central Bank of Saudi Arabia, a government agency, working in the field of regulating financial sectors, issuing and managing currency, setting and implementing monetary and financial stability policies from 2016G until 2018G.<br>• Undersecretary for market institutions at the Capital Market Authority, a governmental body, working in the field of supervising the regulation and development of the financial market and issuing the necessary regulations, rules and instructions for implementing the provisions of the financial market system, from 2014G to 2016G. |

- Abdulrahman Mohammad Al-Qaeed, Secretary of the Council

| Name | Abdulrahman bin Mohammad Al-Qaeed |
|---|---|
| Nationality | Saudi |
| Age | 26 years |
| position | Board Secretary |
| Date of hiring | 28/09/2021G |
| Academic and professional qualifications | • Bachelor's degree, Law, King Saud University, Kingdom of Saudi Arabia in 2017G<br>• Master's degree, private law, from Dar Al Uloom University, USA, in 2021G |
| Other current and previous positions | • An intern lawyer in the office of Dr. Hussain Abdulrahman Al-Anqari Advocates and Legal Consultants, a law firm, since 2017G, for a period of two years and eight months.<br>• Legal Affairs Officer at the Saudi Home Loans Company, from 2019G for a period of one year and eight months.<br>• Director-Designate of the Legal Department - Saudi Home Loans Company, Since 2021G. |

## 5-4 Disclosure of the interests of the members of the Board of Directors, senior executives and the secretary in the Company's shares and debt instruments

| Board member's name | Ownership Percentage* | Description |
|---|---|---|
| Yousef Abdullah Al Shelash | 8.00% | Yousef Abdullah Al Shelash directly owns 8,000,000 shares in the Company before the offering, and he will own 5,600,000 shares |
| Abdullatif Al Shalash | 5.00% | Abdullatif Al Shalash directly owns 5,000,000 shares and will own 3,500,000 |

* Direct Ownership Percentage

## 5-5 The interests of board members and senior executives in contracts and agreements concluded with the Company

### 5-5-1 Contracts and Transactions with Arab National Bank

The Company has entered into many agreements with the Arab National Bank, including service agreements, loan agreements, asset purchase agreements, and facilities agreements, please (for more details, please refer to Section 12-7 (Summary of the Substantive Agreements)). Since the Vice Chairman of the Board of Directors of the Company, Obaid bin Abdullah Al-Rasheed, is a member of the Board of Directors and CEO of the Arab National Bank, and the member of the Board of Directors and Executive Committee, Kamal Amin Khader, is the General Manager of Risk Management at the Arab National Bank, and Othman Khairi Bader the a member of the Board of Directors holds the position of Head-Designate of Retail Banking of the Arab National Bank, and the member of the Remuneration and Nominations Committee Bassam Rashid Al Mubarak holds the position of Head of Strategic Investments at the Arab National Bank, which means that they have an interest in these business and contracts. Accordingly, they are subject to Article 71 of the Companies Law and thus they must obtain a license from the General Assembly of the Company to do this business, these transactions were approved in the general assembly meeting dated 17/08/1442H corresponding to 29/03/2021G.

## 5-6 Members of the Executive Management

The following table shows the details of the members of the executive management of the Company:

Table 5-5: The Company's Executive Management:

| Name | position | Date of Appointment | Nationality | Age (Years) | Number of shares owned before offering | Number of shares owned after offering |
|---|---|---|---|---|---|---|
| Bandar Saeed Al-Ghamdi | Chief Executive Officer | 16/08/2020G | Saudi | 47 | - | - |
| Moath Adnan Jaber | Financial Director | 27/08/2020G | Jordanian | 40 | - | - |
| Mohammad Abdulrahman Al-Asa'ad | Risk Head | 12/1/2020G | Saudi | 43 | - | - |
| Ziyad Mohammad Al-Ghamdi | Head of Review | 04/11/2019G | Saudi | 40 | - | - |
| Khaled Ghazi Noelati | General Manager of Operations | 21/11/2021G | Saudi | 44 | - | - |
| Mohammad Qasim Al-Hussein | Acting Director of Compliance and Anti-Money Laundering | 23/03/2021G | Saudi | 37 | - | - |

## 5-7 Biographies of Senior Executives

The following are the experiences, qualifications and current positions of the Senior Executives:

- Bandar Saeed Al-Ghamdi, Chief Executive Officer

| Name | Bandar bin Saeed bin Abdullah Al-Ghamdi |
|---|---|
| Nationality | Saudi |
| Age | 47 |
| position | Chief Executive Officer |
| Date of hiring | 16/08/2020G |

| Name | Bandar bin Saeed bin Abdullah Al-Ghamdi |
|---|---|
| Date of appointment to the Executive Committee (current session) | 03/02/2020G |
| Academic and Professional Qualifications | • Bachelor of Business Administration from King Abdulaziz University, Kingdom of Saudi Arabia in 2007G |
| Current Positions | • CEO of the Company, from 2020G to date<br>• Member of the Company's executive committee, from 2020G to date |
| Previous Professional Experience | • General Manager of Assets for Retail Banking at Bank Albilad, a public joint stock company, working in the field of banking from 2015G to 2020G<br>• Assistant General Manager of Assets for Retail Banking at Alinma Bank, a public joint stock company, working in the banking field from 2007G to 2015G |

- Moath Adnan Jaber, Chief Financial Officer

| Name | Moath Adnan Jaber |
|---|---|
| Nationality | Jordanian |
| Age | 40 |
| position | Director of the financial department |
| Date of hiring | 27/08/2020G |
| Date of appointment to the Executive Committee (current session) | • MA in Accounting from Amman Arab University for Graduate Studies in Jordan in 2007G<br>• BA in Accounting from the University of Applied Sciences in Jordan in 2003G<br>• Certified Financial Controller Certificate from the International Academy of Financial Management and Business in 2015G |
| Academic and Professional Qualifications | • Director, Financial Department of the Company from the year 2020G to date |
| Current Positions | • Director-Designate, Compamy Financial Department from 2019G until 2020G<br>• Company Financial Controller, from 2012G until 2019G<br>• Financial Controller of the Pioneering Investment Company, a closed joint stock company, working in the field of investments from 2008G to 2012G<br>• Account manager at HPG (formerly Spinneys), a limited liability company, working in the retail field in Jordan, from 2003G to 2008G. |

- Mohammad Abdulrahman Al-Asa'ad, Head of Risks

| Name | Mohammad Abdulrahman Mohammad Al-Asa'ad |
|---|---|
| Nationality | Saudi |
| Age | 43 |
| Position | Head of Risks |
| Date of Hiring | 12/01/2020G |

| Name | Mohammad Abdulrahman Mohammad Al-Asa'ad |
|---|---|
| Academic and Professional Qualifications | • Master's degree in Financial Economics from Ohio University, USA, 2013G<br>• Bachelor's degree in Business Administration and Marketing from the University of Applied Sciences, Jordan in 2000G |
| Current Positions | • Company Chief Risk Officer, from 2020G to date |
| Previous Professional Experience | • Senior Manager of Individual Risk and Collection for the private sector at Al Rajhi Bank, a public joint stock company, working in the field of banking from 2018G to 2020G<br>• Senior Manager of Corporate Credit Strategy at Al Rajhi Bank, a public joint stock company, working in the banking field from 2016G to 2018G<br>• Director of Individuals Risks at Al Rajhi Bank, a public joint stock company, working in the banking field from 2014G to 2016G<br>• Director of Real Estate Finance at Emirates NBD Bank (Saudi Branch), an Emirati public joint stock company, working in the field of banking from 2013G to 2014G<br>• Director of Credit Policies and Procedures at Alinma Bank, a public joint stock company, working in the field of banking from 2009G to 2010G<br>• Director of Product Development at Amlak International Real Estate Finance Company, a public joint stock company working in the fields of real estate finance from 2008G to 2009G |

- Ziyad Mohammad Al-Ghamdi, Director of Internal Audit

| Name | Ziyad Mohammad Al-Ghamdi |
|---|---|
| Nationality | Saudi |
| Age | 40 |
| Position | Internal Audit Manager |
| Date of Hiring | 04/11/2019G |
| Academic and Professional Qualifications | • Bachelor's degree in Finance and Economics from King Fahd University of Petroleum and Minerals, Kingdom of Saudi Arabia in 2005G |
| Current Positions | • Director of the internal audit of the Company |
| Previous Professional Experience | • Senior Internal Auditor at Banque Saudi Fransi, a public joint stock company, working in the field of banking, from 2013G to 2017G<br>• Senior Internal Auditor at Bank Albilad, a public joint stock company, working in the field of banking, from 2011G to 2013G<br>• Internal Auditor at Samba Financial Group (currently the Saudi National Bank), a public joint stock company, working in the field of banking, from 2007G until 2011G |

- Khaled Ghazi Noelati, General Manager of Operations

| Name | Khaled Ghazi Noelati |
|---|---|
| Nationality | Saudi |
| Age | 44 |
| Position | General Manager of Operations |
| Date of Hiring | 21/11/2021G |
| Academic and Professional Qualifications | • BA in Accounting from King Abdulaziz University, Kingdom of Saudi Arabia in 2001G |
| Current Positions | • General Manager of Operations |
| Previous Professional Experience | • Head of Operations Department at Emirates NBD Bank in Saudi Arabia, a closed joint stock company, working in the field of banking, from 2018G to 2021G<br>• Head of Loans Operations Department at JP Morgan Saudi Arabia, a closed joint stock company, working in the banking field, from 2011G until 2017G<br>• Head of the Islamic Mortgage Loans Department at Bank Al-Jazira, a public joint stock company, working in the field of banking, from 2008G to 2011G<br>• Director of Operations for Islamic Loans at Bank Al-Jazira, a public joint stock company, working in the field of banking, from 2004G to 2008G<br>• Accountant at Fitaihi Group, a joint stock company, working in the field of luxury consumer goods, from 2002G until 2004G |

- Mohammad Qassem Al-Hussein, Acting Director of the Compliance and Anti-Money Laundering Department

| Name | Mohammad Qasim Muhammed Al-Hussein |
|---|---|
| Nationality | Saudi |
| Age | 37 |
| Position | Acting Director of Compliance and Anti-Money Laundering Department |
| Date of Hiring | 23/03/2021G |
| Academic and Professional Qualifications | • Bachelor of Arts in English Language, from King Faisal University, Kingdom of Saudi Arabia, in 2020G<br>• Anti-money laundering approved by El-Gouna Training Center in Riyadh in 2018G<br>• Accredited Compliance Officer from the Institute of Banking in Riyadh in 2014G<br>• An international certificate for information technology from Cambridge, United Kingdom, in 2011G |
| Current Positions | • Acting Director of the Compliance and Anti-Money Laundering Department in the Company Since 2021G |
| Previous Professional Experience | • Director of the Compliance and Anti-Money Laundering and Terrorist Financing Department at Bayan Payments Company, a limited liability company, working in the field of digital payments, from 2020G for four months<br>• Compliance and Anti-Money Laundering and Terrorist Financing Officer at Al-Amthal Finance Company, a limited liability company, working in the field of financing for small and medium enterprises, from 2017G until 2020G<br>• Anti-Money Laundering Analyst at Arab National Bank, a public joint stock company, working in the field of banking, from 2011G to 2017G |

## 5-8 Summary of Employment Contracts for Senior Executives

The Company has concluded employment contracts with senior executives in the Company. The following is a summary of the most important terms of those contracts

Table 5-6: Summary of work contracts with senior executives in the Company

| Name | Position | Contract Start Date | Contract End Date |
|---|---|---|---|
| Bandar Saeed Al-Ghamdi | Chief Executive Officer | 16/08/2020G | 15/08/2022G |
| Moath Adnan Jaber | Financial Officer | 27/08/2020G | 05/09/2022G |
| Mohammad Abdulrahman Al-Asa'ad | Head of Risks | 12/1/2020G | 11/01/2022G |
| Ziyad Mohammad Al-Ghamdi | Head of Internal Audit | 04/11/2019G | 03/11/2022G |
| Khaled Ghazi Noelati | General Manager Operations | 21/11/2021G | 20/11/2022G |
| Mohammad Qasim Al-Hussein | Acting Manager of Compliance and Anti-Money Laundering | 23/03/2021G | 23/03/2022G |

### 5-8-1 Employee Stock Program

The Saudi Home Loans Company does not have a stock program for employees.

## 5-9 Committees of the Board of Directors and the Shariah Board and Their Responsibilities

The following is a summary of the committees emanating from the Board of Directors and their powers:

### 5-9-1 Audit Committee

The Audit Committee was formed by a resolution of the General Assembly on 20/04/1443H (corresponding to 25/11/2021G). (The Ordinary General Assembly, during its meeting held on 20/04/1443H (corresponding to 25/11/2021G), also approved the updated regulations for the work of the Audit Committee. The Audit Committee is formed by a decision of the General Assembly, and its members are not less than three and not more than five, headed by a non-executive board member, provided that most of its members are independent from shareholders or others who have the required financial skills and experience, nominated by the Board of Directors for a period of 3 years, taking into account that the Saudi Central Bank won't object that.

The Chairman of the Board of Directors may not chair the Audit Committee, and one of the members of the Committee may not be a manager in the Company or be related to a member of the Board of Directors, and no member of the Committee may have a financial or commercial relationship with the Company during the past two years prior to his nomination for their membership of the committee.

The terms of reference of the committee include, but are not limited to:

- Monitor the Company's business, and for this purpose it may review its records and documents and request any clarification or statement from the members of the Board of Directors or the executive management.
- Recommend the appointment of external auditors' their wages and reviewing their work plans, results and observations.

- Examine the Company's financial statements, reports and notes provided by the external auditor through discussions with the executive management and the external auditor and provide input.
- Prepare reports on its opinion regarding the adequacy of the internal control system in the Company and on the other work it has carried out within the scope of its competence.
- Periodically reviewing the efficiency of internal control systems and determining the extent to which they cover all aspects and activities of the business.
- The audit committee may request the Board of Directors to invite the Company's general assembly to convene if the Board of Directors obstructs its work or the Company suffers serious damage or losses.
- Assess the Company's compliance with regulatory requirements and accounting standards, the existence of insurance and the Company's legal cover.
- Ensure the independence of the external auditor of accounts, their efficiency in carrying out their duties and responsibilities, and the adequacy and suitability of the audit scope to cover the volume of business and/or the various activities of the accounts.
- Review the existence of control systems that ensure the appropriateness of the measures adopted by the management to address credit and market risks (fluctuations in foreign exchange rates and interest rates), as well as liquidity, maturity policies, and adequacy of reserves.
- Ensure that there is a direct channel of communication between the external auditors and the Board, which helps to ensure that the external audit is conducted in a comprehensive and effective manner and that appropriate actions are taken on the reports issued by the external auditors.
- Review the audit committee's scope, functions, responsibilities and authorities on a periodic basis, and submit proposals, if any, to the Board for approval.
- Review the annual audited financial statements with management, before making a recommendation to the Board. Such a review would cover any significant issues relating to accounting principles and/or auditing, as well as the adequacy and appropriateness of internal controls that are likely to have a material impact on the preparation and presentation of the Company's financial statements.
- Review the external auditor's report on material issues related to the financial statements, estimates and important assumptions that the management relied on in preparing the Company's financial statements.
- Review the interim financial statements with management and internal auditing.
- Review any significant changes that occur to the accounting policies, provided that they have been notified to the Internal Audit Department and reported to the Audit Committee.
- Discuss with the external auditor any difficulties during their audit of the Company's accounts, and this discussion should include the following:
- Any difficulties encountered during the audit business, including any restrictions imposed on the scope or procedures of the audit or access to the required information.
- Any necessary changes to the scope of the planned audit.
- Discuss the issues related to auditing standards with the external auditor regarding audit methodology, scope and process.
- Review and evaluate the compliance of the internal auditor (the internal audit system) approved by the Board of Directors, and the regulations/principles of the Saudi Central Bank regarding the scope, operations and programs of internal auditing.
- Evaluate the performance of the external auditor and submit an annual report on the findings to the Board.
- Evaluate the performance of the internal auditor and the Chief Compliance Officer and make a recommendation to the Board regarding appointment, replacement, remuneration and dismissal.
- Review and evaluate the annual plan for internal audit and implementation monitoring.
- Responsible for ensuring an appropriate risk management and compliance policy is in place for the Company. The audit committee oversees the implementation of the policy.
- Review compliance reports on any material compliance failures and take decisions thereto.
- Approval of annual plans and reports related to internal audit, compliance, and actions taken.
- Review the audit reports required by the Saudi Central Bank, along with any comments or conclusions received from the regulatory authorities, and the management's responses thereto.
- Meet at least on a quarterly basis with the Company's financial manager, the head of internal audit, the compliance officer, external auditors, and any other department in the Company, as decided by the committee.

Table 5-7: The Audit Committee consists of the following members as of the date of this prospectus:

| Name | Position |
|---|---|
| Mohammad Suleiman Al-Aqeel | Chairman |
| Ahmed Saleh Al Dehailan | Member |
| Yazid bin Abdullah Al-Suwailem | Member |

Below is the biographical summary of the members of the Audit Committee:

- Mohamed Suleiman Al-Aqeel, Chairman of the Audit Committee

| Name | Mohammad bin Suleiman bin Abdulaziz Al-Aqeel |
|---|---|
| Nationality | Saudi |
| Age | 56 years |
| Position | Chairman of the audit committee |
| Date of Appointment to the Audit Committee (Current Session) | 25/11/2021G |
| Academic and Professional Qualifications | • Bachelor of Accounting from King Saud University, Qassim Branch, Kingdom of Saudi Arabia in 1987G.<br>• Master's degree in Accounting from the University of Miami, USA, 1996G.<br>• Ph.D. in Accounting from the University of Melbourne, Australia, in 2006G.<br>• Fellowship of the Saudi Organization for Professional Auditors and Accountants (SOCPA) in 1997G. |
| Current Positions | • Member of the Audit Committee in the Company since 2020G<br>• Member of the External Advisory Committee for the Bachelor of Accounting Program, Imam Abdulrahman bin Faisal University, a public university, working in the field of education, from 2021G to date.<br>• Member of the Advisory Board of the Accounting Department, College of Economics and Administration, Qassim University, a public university, working in the field of education, from 2019G to date. |

| Name | Mohammad bin Suleiman bin Abdulaziz Al-Aqeel |
|---|---|
| Previous Professional Experience | • Assistant Secretary-General for membership and professional development in the Saudi Organization for Professional Auditors and Accountants (SOCPA), a governmental body, working in the field of leadership and supervision of the accounting and auditing profession in the Kingdom of Saudi Arabia, from 2013G to 2019G.<br>• Heading an advisory team charged with studying and reviewing accounting reports prepared by chartered accountants based on a consultancy contract between the Saudi Organization for Professional Auditors and Accountants (SOCPA) and one of the government agencies from 2016G to 2019G.<br>• Associate Professor of Accounting at the Institute of Public Administration, a government institute, working in the field of raising the efficiency of the government employees and preparing them scientifically, from 2013G to 2014G.<br>• Assistant Professor of Accounting at the Institute of Public Administration, a governmental institute, working in the field of raising the efficiency of government employees and preparing them scientifically, from 2006G until 2013G.<br>• Part-time advisor at the Ministry of Education, from 2011G to 2012G.<br>• Coordinator of the Accounting Sector at the Institute of Public Administration, a government institute, working in the field of raising the efficiency of government employees and preparing them scientifically, from 2010G to 2012G.<br>• Member of the Editorial Board of the Institute of Public Administration Journal, a government institute, working in the field of raising the efficiency of government employees and preparing them scientifically from 2008G to 2012G.<br>• Member of the Examination Committee of the Saudi Organization for Professional Auditors and Accountants (SOCPA), a governmental body, working in the field of leading and supervising the accounting and auditing profession in the Kingdom of Saudi Arabia from 2007G until 2012G. |

Ahmed Saleh Al Dehailan, Member of the Audit Committee
Please refer to the (92)

- Yazid bin Abdullah Al-Suwailem, Member of the Audit Committee

| Name | Yazid bin Omar bin Abdullah Al-Suwailem |
|---|---|
| Nationality | Saudi |
| Age | 33 years |
| Position | Member of the Audit Committee |
| Date of Appointment to the Audit Committee (Current Session) | 25/11/2021G |
| Academic and Professional Qualifications | • BA - King Fahd University of Petroleum and Minerals - Software Engineering<br>• mini MBA SMEs Growth - Babson University |
| Current Positions | • CEO - Digital Coding<br>• Member and partner - Takhlees Logistics Services Company<br>• Member and partner - Lama Al-Oula Information Technology Company |
| Previous Professional Experience | • Founder and CEO of Information Technology - Lama Al-Oula Company<br>• Founder and CEO of Information Technology - IFADY Company<br>• Software Engineer - Saudi Systems Engineering Company<br>• Software Engineer - Advanced Electronics Company |

### 5-9-2 Nomination and Remuneration Committee

The Nominations and Remunerations Committee was formed by a resolution of the General Assembly on 20/04/1443H (corresponding to 25/11/2021G). (The Ordinary General Assembly also approved, during its meeting held on 20/04/1443H (corresponding to 25/11/2021G), the updated regulations for the work of the Nominations and Remunerations Committee. The Committee shall consist of three (3) to five (5) members, provided that at least two (2) of them are independent and the Chairman of the Committee shall be independent, with sufficient qualifications and experience to formulate fair and independent decisions. The chairman of the board shall not be a member or chairman of the committee.

The term of membership of the members of the Council shall be the same as that of the members of the Board of Directors. Based on the proposal of the Board of Directors, the General Assembly issues the procedures for selecting and appointing members of the Committee, the term of their appointment and the scope of their work.

The powers and responsibilities of the Committee include, but are not limited to, the following:

- Ensure that the Company has an adequate level of resources with the appropriate skill mix of board members and committee members.
- Nominating candidates for Council membership and making recommendations to the board.
- Oversee the design and implementation of the reward system, evaluate its operational performance, and ensure that the approved compensation policy is in line with the supervisory and regulatory rules, and remains consistent with the Company's risk management framework.
- Annual review of the adequacy of the Council's skills, and identification of the skillset and capabilities needed to enhance the Council's performance.
- Review the Council's structure and recommend, when needed, changes and monitor adherence to Council's Membership Standards and Council's Committees.
- Assist in evaluating and monitoring the performance of the Board of Directors and the contributions of its members in identifying strengths and weaknesses and making recommendations to the Council accordingly.
- Review and verify the independence of the independent council members and audit committee members on an annual basis.
- Coordinate and assist the Company's management in the appointment of senior and new employees in the Company.
- Develop policies and guidelines regarding the remuneration of the Company's employees as well as senior executives.
- Annually review and approve the Company's compensation-related goals with regard to executive employees, heads of departments, and company employees. Evaluate performance in light of those goals, and determine and approve compensation levels based on this assessment.
- Recommend the remuneration policy for the Board of Directors, which is approved by the General Assembly while the Board complies with the Companies and Regulatory Laws regarding minimum and maximum compensation for Board members.
- This system is reviewed and re-evaluated annually and amended if necessary.

Table 5-8: The Nominations and Remunerations Committee is composed of members as of the date of this prospectus:

| Name | Position |
|---|---|
| Ayham Mohammad Al-Yousef | Chairman |
| Obaid Abdullah Al-Rasheed | Member |
| Faris Al-Rashid Al-Humaid | Member |
| Bassam Rashid Al Mubarak | Member |

The following is a summary of the biographical information of the members of the Nomination and Remuneration Committee:

Ayham Mohammad Al Yousef, Chairman of the Nominations and Remunerations Committee
Please refer to the (89)

Obaid Abdullah Al-Rasheed, Member of the Nominations and Remunerations Committee
Please refer to the (88)

Faris Al-Rashid Al-Humaid, Member of the Nominations and Remunerations Committee
Please refer to the (93)

- Bassam Rashid Al Mubarak, Member of the Nominations and Remunerations Committee

| Name | Bassam bin Rashid bin Abdulaziz Al Mubarak |
|---|---|
| Nationality | Saudi |
| Age | 58 years |
| Position | Member of the Nominations and Remunerations Committee |
| Date of Appointment to the Audit Committee (Current Session) | 25/11/2021G |
| Academic and Professional Qualifications | • Bachelor's degree - King Saud University<br>• General Certificate for Dealing in Securities (CME-1)<br>• Certificate of Stock Brokers (CME-3) |
| Current Positions | • Head of Strategic Investments - Arab National Bank<br>• Member of the Board of Directors - Arab National Investment Company<br>• Member of the Board of Directors - Al-Arabi Heavy Equipment Lease Company |
| Previous Professional Experience | • Chief Executive Officer - Arab National Investment Company |

### 5-9-3 Risk and Credit Committee

The Risk and Credit Committee shall consist of three (3) non-executive members to a maximum of five (5) members. The committee acts as a link between the Company's management and the council in discharging its oversight responsibilities with regard to the risks inherent in the Company's business and the control operations in relation to these risks.

The Committee takes the necessary decisions regarding the issues under its authority and/or makes recommendations to the Board for approval/endorsement in accordance with the term of reference, powers and responsibilities assigned to it by the Board of Directors.

The powers and responsibilities of the Committee include, but are not limited to, the following:

- Obtaining and reviewing reports from the risk manager on the nature and extent of risks facing the Company, trends and concentrations of internal and external risks, their probability of occurrence, and their individual and cumulative impact on the Company's key performance indicators measures.
- Oversee the overall risk assessment, tolerance and current exposure to all existing major risk categories (and any new categories), and advise on these assessments. The risks include, but are not limited to:

- Credit Risk.
- Legal Risks.
- Liquidity Risks.
- Market Risks.
- Operational Risks.
- Goodwill Risks of the Company.
- Strategic Risks.

Taking into account the macroeconomic, financial, political, commercial and sectoral environment and current and projected regulatory requirements.

- Advise and make recommendations to the Board on the Company's future risk strategy
- Advise the Board of Directors and the senior management of the Company on the objectives of risk management (in order to provide clear direction to the Company on risk assessment and management).
- Review and approve the structure and resources of the credit and risk management function and ensure is sufficient independence, resources and adequate access to information to enable it to perform its mission effectively.
- Review the risk management structure and recommend any changes or amendments to the Board of Directors.
- Monitor the risk function employees and ensure their independence and resolve any conflict of interests with the Company's business and activities.
- Obtain and review reports from the risk manager regarding any material violation of the agreed risk limits and verifying the adequacy and suitability of the solutions taken.
- Review the credit portfolio to ensure that it is appropriately managed in the context of market, liquidity and risk appetite and the overall approach to credit risk management, as defined by the risk objectives and limits set forth by the Board of Directors.
- Review risks related to new and existing products.
- Review the points submitted to the Audit Committee on issues that may affect the Company's risk management.
- Review reports and updates received from the Cyber Security Committee and take responsibility for defining cybersecurity policies and monitoring the operational effectiveness of the cybersecurity function.
- Provide the Board with a quarterly risk report that meets the regulatory requirements of the Central Bank of Saudi Arabia and details the findings of the committee's work related to risk management.

Table 5-9: The Risk and Credit Committee is composed of the following members as of the date of this prospectus:

| Name | Position |
|---|---|
| Faris Ibrahim Rashid Al-Rashid Al-Humaid | Chairman |
| Hasan Ali Al-Rashid | Member |
| Pierre com league | Member |

Below is the biographical summary of the members of the Risk Committee:

Faris Ibrahim Rashid Al-Rashed Al-Humaid, Chairman of the Risk and Credit Committee
Please refer to the (93)

- Hasan Ali Al-Rashid, Member of the Risk and Credit Committee

| Name | Hasan Ali Abdullah Al-Rashid |
|---|---|
| Nationality | Saudi |
| Age | 58 |
| Position | Member of the Risk and Credit Management Committee |
| Date of Appointment to the Audit Committee (Current Session) | 22/04/2020G |
| Academic and Professional Qualifications | • High School |
| Current Positions | • Member of the Company's Risk and Credit Management Committee from 2020G to date<br>• Director of Individuals Risks Department at Arab Bank, a public joint stock company, working in the field of banking, from 2009G to date |
| Previous Professional Experience | • Director of Individual Collections at the Saudi British Bank, a public joint stock company, working in the field of banking, from 1988G to 2009G |

- Pierre com Liege

| Name | Pierre com Liege |
|---|---|
| Nationality | French |
| Age | 40 |
| Position | Member of the Risk and Credit Management Committee |
| Date of Appointment to the Audit Committee (Current Session) | 20/04/2020G |

| Name | Pierre com Liege |
|---|---|
| Academic and Professional Qualifications | • Bachelor's degree in engineering statistics from the University of Ansay, Prose, France, in 2005G<br>• Master's degree in Statistics and Economics from the University of Ivry-Val-Dison, Ivry, France, in 2003G |
| Current Positions | • Member of the Company's Risk and Credit Management Committee from 2020G to date<br>• Director of Individual Sector Risk Management at Banque Saudi Fransi, a public joint stock company, working in the field of banking, from 2013G to date |
| Previous Professional Experience | • Senior Director of Project Management at Credit Agricole, a French public joint stock company, working in the field of banking, from 2010G to 2013G<br>• Project Risk Manager at Crédit Agricole, a French public joint stock company, working in the banking field from 2008G to 2009G<br>• Quantitative Marketing Analyst at Crédit Agricole, a French public joint stock company, working in the field of banking, from 2005G to 2007G |

### 5-9-4 Executive Committee

The Executive Committee is composed of five (5) members, and it is permissible for them to be members of the Board of Directors, provided that the Chairman of the Committee is a member of the Board. The Board of Directors, when nominating and appointing members of the Committee, should consider the representation of shareholders on a pro-rata basis to their shareholders in so far as it is practicable to ensure the best interests of the business of the Company.

All members of the Executive Committee are appointed after obtaining the approval of the Saudi Arabian Central Bank or any other regulatory authority imposed by the current laws and regulations.

The committee is responsible for implementing corporate strategy, monitoring business performance, managing risks, ensuring effective internal controls, approving significant capital expenditures, ensuring the effective management of the Company, supervising matters relating to company management, and approving and reviewing company policies.

The Committee enjoys broad powers and authorities delegated to it by the Board of Directors. It shall have, without restrictions, the following powers and responsibilities:

- Manage and direct the Company and ensure its administering within the management framework agreed upon with the Board of Directors.
- Make recommendations to the Board in relation to the Company's strategy and implementation of the strategy approved by the Board of Directors.
- Supervise the preparation of financial and long-term liquidity plans to be recommended to the Board of Directors for approval.
- Look into the material issues arising from the portfolio or internal committees from a risk, financial or strategic perspective, and refer decisions to the Board of Directors.
- Improve the Company's products and monitor the performance of the Company's products compared to the budget.
- Review the adequacy and effectiveness of the Company's internal controls and risk management systems in line with other board committees.

- Review proposed strategic transactions, including acquisitions and disposals, and provide the relevant advice.
- Manage internal resources and planning for senior executive succession in coordination with the Nomination and Remuneration Committee.
- Direct the Company's human resources approach within agreed upon criteria with the the Nomination and Remuneration Committee.

Table 5-10: The Executive Committee consists of the following members as of the date of this prospectus:

| Name | Position |
|---|---|
| Ayham Muhammad Al Yousef | Chariman |
| Ahmed Saleh Al Dehailan | Member |
| Ziad Naim Al Shaar | Member |
| Bassam Rashid Al Mubarak | Member |
| Kamal Amin Khader | Member |

Below is the biographical summary of the members of the Risk Committee:

Ayham Mohamed Al Yousef, Chairman of the Executive Committee
Please refer to the (89)

Ahmed Saleh Al Dehailan, Member of the Executive Committee
Please refer to the (92)

Ziad Naim Al Shaar, Member of the Executive Committee
Please refer to the (91)

Bassam Rashid Al Mubarak, Member of the Executive Committee
Please refer to the (107)

Kamal Amin Khader, Member of the Executive Committee
Please refer to the (91)

### 5-9-5 Shariah Board

The Company's Shariah board aims to control the financing and investment transactions and contracts that regulate the relations between the Company, its clients, financiers and investment companies in accordance with the principles and provisions of Islamic Sharia, and to ensure that the Company's business conforms to Islamic Sharia.

The Shariah Board holds four periodic meetings annually, with one meeting at least every three months. The number of sessions may be increased or decreased when necessary. At the request of the Chief Executive Officer, members of the Board may be invited to meet outside the dates of the periodic meetings if there is a need for that.

The responsibilities and tasks of the Shariah Board are, for example, but not limited to, the following:

- Studying the contracts and mechanisms provided by the Company and issuing legal opinions that lead to the conformity of business to Islamic law and preventing the occurrence of legal violations.
- Discussing, controlling and approving the Company's documents and products in accordance with Islamic Sharia.
- Monitoring the performance of the Company from the legal point of view, in particular, the integrity of contracts and their compliance with the Sharia rules.
- Providing legal advice required by the Company.
- Reviewing contracts and agreements signed by the Company with other parties.

Table 5-11: The Shariah Board consists of the following members as of the date of this Prospectus:

| Name | Position |
|---|---|
| Sheikh Abdullah Suleiman Al-Manea | Chairman |
| Sheikh Dr. Muhammad Abdullah Al-Qari | Member |
| Sheikh Dr. Abdullah Muhammad Al-Mutlaq | Member |

**The following is a summary of the members of the Shariah Board:**

**Sheikh Abdullah Suleiman Al-Manea, Chairman of the Shariah Board:**

Sheikh Abdullah, an advisor and member of the Royal Court in the Kingdom, and a member of the Supreme Judicial Council affiliated to the Royal Court since its establishment in the year 1391H. He was appointed as Vice President, General Presidency of Scholarly Research and Iftā', Call and Guidance in 1396H. He is a member of the Islamic Fiqh Academy of the Organization of the Islamic Conference, and was previously Vice President of the Courts of Makkah, and a former judge of the Court of Cassation in Makkah.

Sheikh Abdullah is a member of the Shariah Supervisory Committees in a number of Saudi banks. He is also a member of several Sharia boards and bodies, including the Accounting and Auditing Organization for Islamic Financial Institutions, based in Bahrain. He also supervised a number of doctoral theses, participated in the discussion of a number of master's and doctoral theses, collected a number of legal rulings (interpretive opinions) and wrote a number of books on Islamic financing.

**Sheikh Dr. Muhammad Abdullah Al-Qari, Member of the Shariah Board:**

Sheikh Al-Qari is a professor of Islamic economics at King Abdulaziz University in Jeddah, and the former director of the Islamic Economics Research Center at the same university.
Sheikh Al-Qari is the recipient of the Islamic Development Bank's scientific award in Islamic banking and finance for the year 2004G. He is an expert in the Islamic Fiqh Academy of the Organization of the Islamic Conference and the Islamic Fiqh Academy of the Muslim World League.

Sheikh Al-Qari is a member of the editorial boards of a number of academic publications in the field of Islamic financial services and jurisprudence, including the journals issued by the Fiqh Academy of the Muslim World League, Islamic economic studies at the Islamic Development Bank, Islamic economics at the International Association for Islamic Economics in London, and the advisory board of the Harvard Series in Sharia Islamic. Sheikh Al-Qari is a member of several Fatwa and Shariah Supervisory Boards in many banks and financial institutions. He has authored several books and articles on Islamic finance in both Arabic and English. He is also a frequent speaker at conferences around the world, and was previously a visiting professor at Harvard University in 1995. Sheikh El-Qari holds a Ph.D. from the University of California.

**Sheikh Dr. Abdullah Muhammad Al-Mutlaq, Member of the Shariah Board:**

Sheikh Abdullah is a member of the Permanent Committee for Scholarly Research and Ifta. Sheikh Abdullah received his doctorate degree from Imam Muhammad bin Saud University in Riyadh in 1404H, and he was previously the head of the university's Department of Comparative Jurisprudence. Sheikh Abdullah is a member of the Shariah Supervisory Committees in a number of Saudi banks. Sheikh Abdullah has supervised a number of doctoral theses, participated in the discussion of a number of master's and doctoral theses, collected a number of Sharia rulings (interpretive opinions) and wrote a number of books in the field of Islamic financing.

**Remuneration of Board Members and Executive Management**

According to the Company's article of association, the remuneration of the members of the Board of Directors consists of a certain amount or benefits in kind from the net profits or retained earnings as determined by the Board of Directors and approved by the Ordinary General Assembly, in addition to attendance and transportation allowances, as determined by the Board of Directors in accordance with the official decisions and instructions issued in this regard, and within the limits of what is stipulated in the Companies Law and its regulations. The report of the Board of Directors to the Ordinary General Assembly must include a comprehensive statement of all the Board members received during the fiscal year in terms of bonuses, expense allowances and other benefits. It also should include a statement of what the council members received in their capacity as workers or administrators, or what they received in return for any technical or administrative work or consultancy. It also should include a statement of the number of council sessions and the number of sessions attended by each member from the date of the last meeting of the general assembly.

No remunerations or benefits in kind have been paid to members of the Board of Directors for the past three years. The following table shows the remuneration of the top five senior executives, who are : CEO, CFO, COO, Sales Manager, Compliance and Anti-Money Laundering Manager (for the fiscal years ending on 31 December 2018G, 2019G and 31 December 2020G and the period ending on 31 March 2021G).

| SAR | 31 December 2018G | 31 December 2019G | 31 December 2020G |
|---|---|---|---|
| Board of Directors | 0 | 0 | 0 |
| Senior Executives (5 employees) | 605,822 | 516,474 | 200,280 |

## 5-10 Corporate Governance

The Company's policy is to adopt high standards of corporate governance. The members of the Board of Directors acknowledge their commitment to the Corporate Governance Regulations issued by the Capital Market Authority on 16/05/1438H corresponding to 13/02/2017G. The Authority issued the amended Corporate Governance Regulations on 01/06/1442H corresponding to 14/01/2021G.

The Corporate Governance Regulation outlines the rules and standards governing the management of the Company to ensure adherence to the best corporate governance practices that ensure the protection of the rights of shareholders and stakeholders. The provisions of the Corporate Governance Regulations are mandatory, except for those where they are indicated as indicative.

The Company's internal governance regulation that was approved by the Company's Board of Directors on 21/02/1443H corresponding to 28/09/2021G contains provisions related to the following:

- Shareholders' equity.
- Executive management, its functions and responsibilities.
- Board of Directors, including its composition, membership rules, meetings, work procedures, terms of reference, powers and remunerations.

- The Company's committees, including their formation, membership rules, meetings, work procedures, terms of reference, powers and remunerations
- Risk management and compliance.
- General Assembly and its meetings.
- Internal control and audit.
- Conflict of interest policy.
- Disclosure and transparency.

The Directors declares that the Company, as on the date of this Prospectus, is compliant with the mandatory provisions of the Corporate Governance Regulations, with the exception of the following provisions:

- Paragraph (a) of Article (8) related to announcing on the Exchange's website the information of the candidates that are nominated for membership of the Board of Directors when publishing or sending the invitation to convene the General Assembly.
- Paragraph (c) of Article (8) related to restricting voting in the General Assembly to candidates whose information is announced in accordance with Paragraph (a) of Article (8).
- Paragraph (d) of Article (13) related to publishing the invitation to the general assembly on the market's website and the company's website and in a daily newspaper distributed in the area where the company's head office is.
- Paragraph (h) of Article (13) related to registering the data of shareholders wishing to attend the general assembly meetings.
- Paragraph (c) of Article (14) related to providing information related to the items of the agenda of general assembly to shareholders through the website of the Exchange and the Company's website and obtaining information related to the items on the agenda of the general assembly, especially the Board of Directors' report, the auditor, the financial statements and the report of the audit committee.
- Paragraph (d) of Article (15) in relation to providing the Authority with a copy of the minutes of the General Assembly meeting.
- Paragraph (e) of Article (15) related to announcing to the public and notifying the Authority and the Exchange of the results of the General Assembly meetings immediately upon their conclusion.
- Paragraph (b) of Article (19) related to notifying the Authority and the Exchange of the immediate termination of the membership of a member of the Board of Directors with a statement of the reasons.
- Article (68) related to publishing the nomination announcement on the Company's websites and the Exchange in order to invite persons wishing to run for membership in the Board of Directors, provided that the door for candidacy remains open for at least one month from the date of the announcement.
- Article (89) related to disclosure policies and procedures.

The Company is not Currently complied with the above-mentioned provisions of the Corporate Governance Regulations, given the fact that the Company's shares have not yet been listed on Tadawul as on the date of this Prospectus. The Directors declare their commitment to these provisions as of the listing date of the Company's shares on the market. The Directors declare that the company is currently compliant with all other provisions of the Corporate Governance Regulations and the provisions of the Companies Law.

The Company has five committees emanating from the Board of Directors, namely, Executive Committee, Audit Committee, Risk and Credit Committee, Nomination and Remuneration Committee, and the Shariah Committee. These committees review the Company's operations within the framework of their areas of expertise and report the results and suggestions to the Board of Directors (for more details, please refer to Section No. (5-9) ("**Committees of the Board of Directors and the Shariah Board and Their Responsibilities**").

## 5-11 Conflict of Interests

The Company's article of association or the Company's internal regulations and policies do not grant any powers that enable a member of the Board of Directors to vote on a contract or work in which he has a direct or indirect interest, pursuant to the provisions of Article 71 of the Companies Law, and the Company has an internal by-law named the "conflict of interests policy". Work ethics pertain to conflict of interests and competition and are approved by the Board of Directors. The members of the Board of Directors acknowledge the following:

a. Compliance with Articles seventy-first and seventy-second of the Companies Law and Articles forty-fourth and forty-sixth of the Corporate Governance Regulations.
b. Not to vote on decisions related to contracts concluded or transactions ratified with related parties in the meetings of the General Assembly if they have a direct or indirect interest in them.
c. Not to engage in business that competes with the Company's business without the approval of the Ordinary General Assembly, pursuant to the contents of Article 72 of the Companies Law.

As at the date of this prospectus, none of the members of the Board of Directors or senior executives was a party to any agreement, arrangement or understanding under which he is subject to any obligation to prevent him from competing with the Company or any similar obligation in relation to the business of the Company; however, the participation of members of the Board of Directors in the business of a competition for the Company to obtain the approval of the General Assembly under Article 46 of the Corporate Governance Regulations and Article 72 of the Companies Law.

The Company has prepared and implemented a clear written policy to deal with cases of conflict of interests and dealings with related parties, taking into account the appropriateness of this policy to the size of the Company, the nature of its business and its organizational structure, in order to ensure the that there is a clear mechanism in place that is applied to identify cases of conflict of interest, competitive interests and cases that require the approval of the General Assembly. The conflict of interest policy and dealings with related parties establishes strict procedures aimed at complying with the general rules under the Companies Law, the Corporate Governance Regulations, the regulatory controls of listed companies and other related requirements. The Board of Directors approved the conflict of interests policy and related party transactions on 28/09/2021G corresponding to 21/02/1443H. The approval of the General Assembly was obtained during its meeting held on 22/12/2021G corresponding to 18/05/1443H.

The Company acknowledges that there is no conflict of interests for any of the members of the Board of Directors or senior executives or any of their relatives has an interest in the Company's business.

## 5-12 Employees

The Company has adopted an employment policy aimed at building and strengthening relationships between the Company and its employees. This policy covers all aspects of employment, working hours, health care, social insurance benefits, salaries and other allowances, including accommodation, relocation and bonuses. The Company has also adopted a professional conduct policy, which has been handed over to the employees, to follow adhere to it.

### 5-12-1 Number of Employees

As of 30 June 2021G, the Company employed 168 employees (89% of whom are Saudi nationals). The following tables specify the distribution of employees by sector of work and the percentage of localization.

Table 5-12: The following table shows the number of employees in the Company by work sector as of 31 December 2018G, 2019G and 2020G:

| Business Sector | 2018G | | | | 2019G | | | | 2020G | | | | 30 June 2021G | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Saudi | Non-Saudi | Total | Percentage/ range of localization | Saudi | Non-Saudi | Total | Percentage/ range of localization | Saudi | Non-Saudi | Total | Percentage/ range of localization | Saudi | Non-Saudi | Total | Percentage/ range of localization |
| Sales | 24 | 15 | 39 | 62% | 39 | 10 | 47 | 79% | 30 | 5 | 35 | 86% | 29 | 5 | 34 | 85% |
| Credit And Risk Management | 15 | 1 | 16 | 94% | 10 | - | 10 | 100% | 7 | 1 | 8 | 88% | 31 | 1 | 32 | 97% |
| Internal Audit | 1 | 1 | 2 | 50% | 2 | - | 2 | 100% | 3 | - | 3 | 100% | 3 | - | 3 | 100% |
| Financial Management | 6 | 4 | 10 | 60% | 7 | 4 | 11 | 64% | 8 | 4 | 12 | 67% | 9 | 4 | 13 | 69% |
| Human Resources | 3 | 2 | 5 | 100% | 3 | - | 3 | 100% | 4 | - | 4 | 100% | 4 | - | 4 | 100% |
| Commitment | 1 | - | 1 | 100% | 2 | - | 2 | 100% | 2 | - | 2 | 100% | 3 | - | 3 | 100% |
| Information Technology | 3 | 4 | 7 | 43% | 5 | 4 | 9 | 56% | 6 | 4 | 10 | 60% | 6 | 3 | 9 | 67% |
| Processes | 10 | - | 10 | 100% | 9 | - | 9 | 100% | 22 | - | 22 | 100% | 22 | - | 22 | 100% |
| Departments And Other Functions | 35 | 4 | 39 | 90% | 47 | 11 | 58 | 81% | 59 | 9 | 68 | 87% | 44 | 4 | 48 | 92% |
| **Total** | **98** | **29** | **129** | **77%** | **122** | **29** | **151** | **81%** | **141** | **23** | **164** | **86%** | **151** | **17** | **168** | **89%** |

Table 5-13: The following table shows the number of the Company's employees and the achieved percentages of localization as on 31 December 2018G, 2019G and 2020G.

| Company | 2018G | | | | 2019G | | | | 2020G | | | | 30 June 2021G | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Saudi | Non-Saudi | Total | Percentage/ range of localization | Saudi | Non-Saudi | Total | Percentage/ range of localization | Saudi | Non-Saudi | Total | Percentage/ range of localization | Saudi | Non-Saudi | Total | Percentage/ range of localization |
| Saudi Home Loans Company | 98 | 29 | 129 | 77% | 122 | 29 | 151 | 81% | 141 | 23 | 164 | 86% | 151 | 17 | 168 | 89% |

The number of the Company's employees reached 129 employees as on 31 December 2018G, then increased by 17% to 151 employees as on 31 December 2019G. Then the number of the Company's employees increased by 8.6% to 164 employees as of 31 December 2020G, then the number of the Company's employees increased by 2.4 % to 168 employees as on 30 June 2021G.

### 5-12-2 Localization (Nationalization)

The localization program "Nitaqat" was approved by Resolution No. 4040 of the Minister of Human Resources and Social Development dated 12/10/1432H (corresponding to 10/09/2011G) based on Cabinet Resolution No. 50 dated 21/05/1415H (corresponding to 27/10/1994G), which started to take effect as of 12/10/1432H (corresponding to 10/09/2011G). The Ministry of Human Resources and Social Development has launched the Nitaqat program to provide incentives for institutions to employ Saudi citizens. This program evaluates the performance of any institution on the basis of specific domains, which are platinum, green (divided into three categories, green, low, medium and high), and red. The establishments that are classified within the platinum and green bands are considered committed to the requirements of localization and obtain some specific privileges, such as enabling them to obtain and renew work visas for foreign employees or enabling them to change the profession of foreign employees (with the exception of professions designated only for Saudi citizens). As for the establishments within the red band, it is considered not committed to the requirements of localization and is subject to the imposition of some punitive measures against it, such as limiting its ability to renew work visas for foreign employees - or completely not enabling it to obtain or renew work visas for foreign employees. As of 13 June 2020G, the Company's localization rate is 87,12% which classifies it as green. For the classification of the Company's domains, please refer to Table (5-13) above (the number of company employees and percentages of localization achieved of 31 December 2018G, 2019G and 2020G).

## 5-13 Administrative Departments

### 5-13-1 Business and Product Development Department:

Product Development Department serves to develop the Company's performance and keep pace with the era's changes through research and continuous study of the real estate market and analysis of the strengths and weaknesses of competitors where the business team is keen to study important aspects of everything related to marketing and sales strategies and product offerings and the importance of using the stat-of-the-art technology to raise productivity as the most important developments are applied at a record speed to continue the development of the Company's performance and maintain its position in the real estate market.

### 5-13-2 Marketing Department

The Marketing Department is concerned with serving the Company in the field of media and marketing, highlighting its image and defining its role in the real estate finance market. The Department is also working to achieve the highest possible degree of cooperation and coordination with governmental bodies and authorities to educate customers and raise their financial and financing awareness, in addition to developing the relationship between the Company's employees with the aim of instilling a sense of belonging and pride to the Company.

The Marketing Department focuses on supporting and assisting all departments in the Company by studying the market on a regular basis, identifying points, objectives and challenges, building action plans and sharing them with other departments. Reviewing the established policies and procedures in the Company and measuring their impact on the work, which contributes to an appropriate restructuring, and linking it to the Company's policies, risk management and the Company's business plans.

The Marketing Department is also concerned with reviewing the offered products and competitive advantages and their attractiveness in the market and developing proposals that are compatible with the real estate market and the targeted categories and segments. Marketing campaigns are also designed and managed with the aim of delivering an important message that carries a distinct competitive value to the targeted segments. The Department also aims at raising the awareness of the real estate finance sector, through clear awareness messages.

### 5-13-3 Financial Department

Financial Department is concerned with studying the best ways to use capital in order to maximize the market value of the Company and to maximize shareholders' wealth to achieve survival and sustainable growth. It also determines the Company's financial goals in the short, medium and long term, as well as preparing estimated budgets with revenues, expenses and cash flows, compiling financial statements and analyzing them in management reports, to assist senior management in taking decisions and following corrective actions for plans and the financial system.

### 5-13-4 Legal Department

The Department seeks to provide a legal system with a high level of efficiency and know-how in dealing with consultations, disputes and cases, and works in a highly professional manner in accordance with the nature of the financing and real estate business and what is commensurate with the regulations and instructions of the regulatory authorities, and the application of high work ethics in a manner that takes into account efficiency and in the interest of work.

One of the most important responsibilities of the legal department is to plead cases and preserve rights, to reach the goal of resolving cases in the appropriate time and manner without affecting the rights, safety and reputation of the Company. The Department performs a pioneering role in providing advice in all legal fields and providing legal protection through the legal department's team with competence and experience in scientific, academic and practical terms. The Department team also specializes in providing legal advice and fatwas, and in resolving disputes between the Company and its customers amicably or through reconciliation.

The Department also prepares and formulates draft contracts upon completion, writes and re-drafts internal regulations and decisions, prepares work organization regulations in accordance with the Company's interests without violating the work system, legal supervision of the administrative and organizational structures of the facility, job description, pay scale, and cadres, setting wages and rewards policies in coordination with relevant departments.

### 5-13-5 Compliance Department

The Company considers its employees and cadres to be the most important assets of the Company. Therefore, the Compliance Department is given great attention by the Company and its senior management. The Company believes that commitment is more of a culture than just a responsibility. It also believes that the commitment function is important to the Company because it gives the work team and customers alike the security and safety of the Company's activity. This is achieved by providing adequate and effective training and awareness on the role and importance of commitment. The Compliance Department of the Company prepares a list of training courses and awareness materials for the Company's employees at all levels to help them increase their knowledge in many topics related to compliance, which will thus help them improve their compliance culture and behavior.

A Compliance Regulations Guide was also issued to contain all policies, procedures and other important topics related to compliance to enable employees to carry out their duties and abide by all external and internal rules and regulations. The Compliance Department also continues to work on awareness campaigns to ensure that all employees of the Company are aware of their responsibilities and duties.

### 5-13-6 Human Resources Department

The role of the human resources and administrative support sector revolves around developing strategic and operational plans to attract, develop and maintain the appropriate Saudi competencies, in addition to providing administrative support and assistance to all sectors of the Company. The sector also implements training programs related to developing technical and leadership skills and motivating employees to achieve the highest results that commensurate with the Company's objectives in addition to the commitment to develop the Company in a manner that commensurate with the regulations approved by the Central Bank of Saudi Arabia.

### 5-13-7 Department of Operations and Information Technology

The Operations and Information Technology Department is concerned with technical development and support for all departments and sections to ensure workflow in accordance with internal policies and procedures and government legislations. The department completed the implementation of the cyber security system in accordance with the requirements of the Central Bank of Saudi Arabia in the procedures for managing change. The processes and procedures were developed to simplify work and adapt best practices in project management, including good stakeholder management, risk planning and mitigation.

The Department seeks continuously to simplify its workflow processes electronically in order to take a faster decision regarding change requests and project management, as well as the performance of management system, which includes performance indicators and cards according to the Company's objectives. This resulted in a high rate of accuracy of automated data, thus ensuring the correctness of collection revenues, in addition to a better view of business performance through the development and customization of information management system reports and customer service complaints improvements through the Communications center automation. The information technology infrastructure has been modernized in accordance with international standards and the site has been developed to enhance customer experience and link with sales agents.

The Department also conducts a comprehensive assessment of governance gaps, policies, processes and technology in accordance with the requirements of the Central Bank of Saudi Arabia, as well as developing policies, strategies, charter, operations and others from the aspect of cyber security.

### 5-13-8 Credit Department

The Company aims at maintaining a sound and diversified credit portfolio, by setting a mechanism and trends related to credit policy, financing limits, as well as focusing on the various sectors of the Company's business. The extent to which the target customers and the criteria for accepting credit risks resulting from risk strategies are reviewed by the concerned department and approved by the Company's Risk Committee and Executive Committee.

The management constantly conducts a comprehensive update of the credit policies to reduce risks and ensure the application of the standards required to comply with the standards of the Central Bank of Saudi Arabia, bearing in mind the competitive situation in the market. It also improves the internal department procedures to facilitate and reduce the time taken to complete the work and raise the level of customer satisfaction. In addition, the administration activates subscriptions with the relevant authorities to enhance credit studies and know the market situation.

### 5-13-9 Risk Management Department

The Company's risk Department is represented in a set of policies, procedures, and controls designed to achieve the Company's strategic objectives in addition to managing the business continuity plan in the event of any obstacles, the management also ensures the quality of the financing portfolio. The management's goal is to align its policies with best practices in the field of real estate finance and for the Company to have comprehensive risk management procedures to identify, measure, monitor and control the totality of its risks.

The Risk Management prepares quarterly risk reports in compliance with the requirements of the Central Bank of Saudi Arabia and the Company's system, after discussion and approval by the Credit and Risk Management Committee and the Board of Directors, in addition to the relevant decisions. The risk management maintains records of the meetings of the risk management committee, tracks the committee's decisions, and follows up on their implementation.

The risk department has also updated the expected credit loss model and verified its validity to comply with the accounting standards followed in the Kingdom of Saudi Arabia, and the validity is verified in the final process with the Company's accounting advisor in that fiscal year before the review of the external auditor.

### 5-13-10 Closing and Transfer Department

The closing and discharging department is one of the most important elements of the Company and a large part of the completion of the work falls on the shoulders of this department. So, the closing and discharge team works to accomplish all the goals with high speed and accuracy to achieve the Company's goals and enrich the customer journey.

The management has implemented the standard contract of the Central Bank of Saudi Arabia along with the responsible financing systems to comply with the guidelines of the Central Bank of Saudi Arabia. A new unit has also been established that deals with responsible finance with regard to calling / informing customers about the terms and conditions of the contract, as well as signing contracts with customers in accordance with the instructions of the relevant legislative authorities. The management is currently working on the integrated automation of the discharging process, through the "Muwathaq" service provided by the Ministry of Justice.

### 5-13-11 Customer Care Department

The Customer Service Department plays a pivotal role in the Company as it updates the policy and procedures of the call center unit, the customer service department and the consumer protection managers to comply with the continuous internal changes and improvements and the application of the regulations approved by the Central Bank of Saudi Arabia related to the customer service department.

The management has introduced mechanisms to measure and monitor the performance of customer service and the level of call center service. The system is linked to the relevant internal departments to easily track the quality and speed of response to requests and complaints. The management has also automated most of the day-to-day operational tasks to ensure the speed and quality of service provided. In addition, the management has succeeded in automatically linking the required reports from relevant legislators to the system.

6

# Management's Discussion and Analysis of the Company's Financial Position

# 6- Management's Discussion and Analysis of the Company's Financial Position

## 6-1 Financial Information and Management Discussion and Analysis

### 6-1-1 Introduction

The Management Discussion and Analysis section of the Saudi Home Loans Company (the "**Company**") provides an analytical presentation of the Company's operational performance and financial position during the years ending on 31 December 2018G, 2019G and 2020G and the audited preliminary lists for the six-month period ending on 30 June 2021G. This section and the attached clarifications have been prepared based on the consolidated financial statements for the fiscal years 2018G, 2019G and 2020G, have been audited in accordance with international auditing standards approved in the Kingdom of Saudi Arabia by the Company's auditor, KPMG Professional Consulting. The Company has applied the International Financial Reporting Standards approved in the Kingdom of Saudi Arabia and other standards and other issuances approved by the Saudi Organization for Charted and Professional Accountants (SOCPA) (together referred to as (the "**International Financial Reporting Standards approved in the Kingdom of Saudi Arabia**") in preparing the audited financial statements for the years ending on 31 December 2018G, 2019G and 2020G.

Neither KPMG Professional Consulting Company (which is part of the team working for the Company) nor any of its subsidiaries or relatives of its employees have any shares or shares of any kind in the Company that may affect its independence as of the date of issuing the financial statements report. KPMG Professional Consulting provided, as of the date of this prospectus, its written approval to refer in this prospectus to its role as an auditor for the Company's accounts for the fiscal years ending on 31 December 2018G, 2019G and 2020G, and it did rescind that approval.

(The above financial statements are an integral part of this prospectus and should be read in conjunction with these statements and their supplementary explanations. These financial statements are contained in Section 19 "**Financial Statements and Auditor's Report**" of this Prospectus.)

All amounts in this section have been rounded to the nearest thousand riyals unless otherwise noted. The numbers and percentages have been rounded to the nearest decimal place. Therefore, the sum of these numbers may differ from what is mentioned in the tables. Accordingly, all ratios, indicators, annual expenditures and compound annual growth rates are based on rounded figures. The financial information for the fiscal year ending on 31 December 2018G was used from the comparative financial information presented in the Company's audited financial statements for the fiscal years ending on 31 December 2019G. The financial information for the financial years ending on 31 December 2019G and 2020G was used from the Company's audited financial statements for the fiscal years ending on 31 December 2020G and the preliminary audited statements for the six-month period ending on 30 June 2021G.

This section may include forward-looking statements regarding the future capabilities of the Company, based on management's plans and expectations regarding the Company's growth, results of operations and financial position, as well as the risks and uncertainties associated with it. The Company's actual results may differ materially from the expected results as a result of many factors, risks and future events, including those discussed in this section of the Prospectus or in any other place thereof, particularly Section (2) "**Risk Factors**" section of this Prospectus.

### 6-1-2 Declarations of Board Members Regarding the Financial Statements

The members of the Board of Directors acknowledge that the financial information contained in this section has been extracted without material modifications and is presented in accordance with the audited financial statements on a consolidated basis for the fiscal years ending on 31 December 2018G, 2019G and 2020G and the reviewed consolidated preliminary financial statements for the six-month period ending on 30 June 2021G and the accompanying notes prepared by the Company in accordance with International Financial Reporting Standards. The previously mentioned statements were prepared by the Company in accordance with the International Financial Reporting Standards approved in the Kingdom of Saudi Arabia, and reviewed by the Company's auditor, KPMG Professional Consulting.

The members of the Board of Directors also acknowledge that the single company has sufficient working capital for the twelve-month period following the date of publication of this prospectus.

The members of the Board of Directors acknowledge that there has been no fundamental change in the financial or commercial position of the Company during the three fiscal years immediately preceding the date of submitting an application for registration and offering of the securities that are the subject of this prospectus, in addition to the end of the period included in the independent auditor's report until the date of issuance of this prospectus, except as stated in this section or any other section of this Prospectus, in particular the factors mentioned in Section No. 2 "**Risk Factors**" of this Prospectus.

The members of the Board of Directors acknowledge that all material facts related to the Company and its financial performance have been disclosed in this prospectus, and that there is no information, documents or other facts whose failure to include them would make any statement misleading.

The members of the Board of Directors acknowledge that the Company does not have any property, including any contractual securities or other assets, the value of which is subject to fluctuations or is difficult to ascertain, which significantly affects the assessment of its financial position.

The members of the Board of Directors acknowledge that the Company has not provided any commissions, discounts, brokerage fees or any non-cash compensation granted by the issuer during the three years immediately preceding the date of submitting the application for registration and offering of securities subject to this prospectus in connection with the issuance or offering of any securities.

The Directors acknowledge that the Company has no loans or other liabilities whether covered by a personal or non-personal guarantee or covered by a mortgage, including any overdrafts from bank accounts, and does not have any secured liabilities or liabilities under acceptance or credit acceptance or any lease purchase liability except as disclosed in Section No. 12-7-6 "**Financing Agreements**", Section No. 2 "**Risk Factors**" and Section No. 6 "**Management's Discussion and Analysis of the Company's Financial Position**" of this Prospectus.

The members of the Board of Directors acknowledge that the Company has no intention of making any material change in its activity.

The members of the Board of Directors acknowledge that the Company's operations have not been interrupted in a way that significantly impacted or affected its financial position during the last twelve months.

The members of the Board of Directors acknowledge that none of the Company's shares are subject to an option right, as of the date of this prospectus.

The members of the Board of Directors acknowledge that the Company has provided comprehensive details in this section of any potential liabilities and has calculated and recorded a provision for the obligations contained in management's discussion and analysis of the financial position and results of operations. For more information, please refer to Section No. 9 "**Capitalization and Indeptedness**" of this Prospectus.

The members of the Board of Directors acknowledge that the Company's property is not subject to any mortgages, rights or burdens as of the date of this prospectus.

Other than what is shown in Table 6-34 of Section 6 "**Management's Discussion and Analysis of the Company's Financial Position**" the Directors acknowledge that the Company has provided comprehensive details in this section of all fixed assets and investments, including contractual securities and other assets whose value is volatile or difficult to estimate.

The members of the Board of Directors acknowledge that there are no important fixed assets to be purchased or leased by the Company as of the date of this prospectus

The members of the Board of Directors acknowledge that the Company has not issued debt instruments, term loans, secured or unsecured mortgages, current or approved, but not issued, except for what was disclosed in section No. 12-7-6 "**Financing Agreements**" of this prospectus.

The members of the Board of Directors acknowledge that there was no reservation in the chartered accountant's report on the issuer's financial statements for any of the three fiscal years immediately preceding the date of submitting the application for registration and offering of securities subject to this prospectus.

The members of the Board of Directors acknowledge that there were no structural changes in the issuer during the three fiscal years immediately preceding the date of submitting the application for registration and offering the securities subject to this prospectus.

The members of the Board of Directors acknowledge that there has been no material change in the issuer's accounting policies.

The members of the Board of Directors acknowledge that there was no action or obligation to make any fundamental amendment to the audited and announced financial statements during any of the three fiscal years immediately preceding the date of submitting the application for registration and offering of securities subject to this prospectus.

Other than what is mentioned in this prospectus, members of the Board of Directors or any of their relatives do not have any shares or interest of any kind in the issuer or any of its subsidiaries, if any.

### 6-1-3 Main Risks Affecting the Company's Operations:

The following is a discussion of the most important factors that have affected or are expected to affect the financial position of the Company and the results of its operations. These factors are based on the information currently available to the Company and none of them may have an impact on the Company's business.

- **Economic Factors and Governmental Support**

The Company's financial performance may be affected by changes in economic conditions in the Kingdom of Saudi Arabia. Where the real estate sector and real estate financing products for individuals in the Kingdom are affected by the level of income per capita, in addition to the level of government support for real estate products provided to citizens through the initiatives of the Ministry of Housing, and the state bears a value-added tax of no more than SAR 850 thousand from the price of the first house. Thus, any fundamental change in the growth of the economy in the Kingdom may lead to a change in the policy of government support for the real estate sector and a change in the level of per capita income, which will affect the volume of the Company's financing activities. In addition, general economic changes may lead to fluctuations in real estate prices, which may result in a change in the level of demand for real estate financing products for individuals.

- **Seasonal Factors**

The real estate finance sector is affected by seasonal factors, as the level of demand for real estate finance products during the summer holidays and official holidays and during the month of Ramadan is negatively affected, and thus requests for mortgage products from individual customers decrease.

- **Competitive Factors**

The Company's operations and the competitive posture are affected by the products provided by competitors in the market. The main activities of the Company's competitors are financing the purchase of homes, land and residential apartments, financing real estate that is developed by all companies working in the field of real estate development and financing the establishment of commercial and industrial projects. The Saudi Home Loans Company acquired a market share of 26.3% in terms of total revenues and 24.3% in terms of net income as of 2020G.

According to the study of the market study consultant, the real estate finance sector in the Kingdom consists of 6 real estate finance companies and 14 banks and commercial banks that provide various types of real estate finance in addition to the Real Estate Development Fund. Therefore, the real estate finance sector is characterized by high competition. The coming years may witness the entry of new competitors to the real estate finance sector. The Saudi Home Loans Company acquired a market share of 26.3% in terms of total revenues and 24.3% in terms of net income as of 2020G

- **Regulations For the Real Estate Sector and the Real Estate Finance Sector**

Regulations and the regulatory environment have an influential role in the level of demand for real estate financing products.

Government policies and regulations play a key role in influencing the real estate sector and the level of demand for real estate finance products. For example, but not limited to, the change in each of the following: the size of the down payment, the monthly deduction percentage and the percentage of financial leverage, such factors may affect the increase or decrease in the demand for real estate financing products. Consequently, changes in government policies and regulations will affect the Company's financing activities.

- **Change in the Interest Rate**

The Company depends in its business on obtaining financing, and the profit margins related to financing with the Company depend largely on the availability of liquidity with the lenders and the bank interest rates linked to the SAIBOR index. For example, arranging Murabaha financing depends on the profit margin being built on the basis of fixing the SAIBOR price for long periods that extend to the financing period granted to the client, i.e. any increase or decrease in the lending rate directly reflected on the profit margins provided to clients, which is reflected in the level of demand among clients.

## 6-1-4 Summary of Accounting Policies:

**1. Change in Accounting Policies**

The accounting policies used when preparing these financial statements are in line with those used when preparing the annual financial statements for the year ended 31 December 2019G. Based on the adoption of the amendments to the current standards and after taking into account the current economic environment, the following accounting policies are applied as of 01 January 2020G to replace, amend or add to the corresponding accounting policies stipulated in the annual financial statements for the year 2019G.

a. New International Financial Reporting Standards, interpretations and amendments applied by the Company:

Table 6-1: The following are the amendments to accounting standards and interpretations that became effective over the annual reporting periods beginning on or after 01 January 2020G. Management has assessed that the amendments do not have a material impact on the Company's financial statements:

| Standard/Modifications | Statement |
|---|---|
| Amendments to IFRS 3 | business definition |
| Amendments to IAS 1 and IAS 8 | Define materiality |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Reform of benchmarking for interest rates |
| Modifications to references | Conceptual framework in international financial reporting standards. |

b. Accounting Standards Issued but Not Yet Effective

Table 6-2: The following are the accounting standards, amendments and changes that have been published and are mandatory for the Company for the accounting year beginning on or after 01 January 2021G. The Company has elected not to early adopt these issuances as it does not expect a material impact on the financial statements.

| Standard/Modifications | Statement | It is effective from the periods beginning on or after the following date |
|---|---|---|
| Amendment to IFRS 16 | COVID-19 rental concessions | 01 June 2020G |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Correction of the interest rate benchmark - stage 2 | 01 January 2020 |
| Amendments to IAS 37 | Expected Loss Contracts - Cost of Completing a Contract | 01 January 2022G |
| Amendments to IAS 16 | Property, plant and equipment: Proceeds before its intended use | 01 January 2022G |
| Amendments to IFRS 3 | References on conceptual framework | 01 January 2022G |
| IFRS 17 | insurance contracts | 01 January 2023G |
| Amendments to IAS 1 | Classification of liabilities as current and non-current | 01 January 2023G |

C. Financial Instruments

**Classification of financial assets:**

On initial recognition, the financial assets are classified as measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss. As at 31 December 2020G and 2019G, the Company does not have any financial assets at fair value through profit or loss.

**1. Financial Assets Carried at Amortized Cost:**

- A financial asset carried at amortized cost is measured if it meets the following two conditions and is not designated at fair value through profit or loss.
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows.
- The contractual terms of the financial assets give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal amount.

**2. Financial Assets at Fair Value through Other Comprehensive Income:**

Equity instruments: On initial recognition of equity investments that are not held for trading, the Company has the right to definitively elect to present subsequent changes in the fair value of the investment in other comprehensive income. This option is made on an investment-by-investment basis.

**3. Business Model Evaluation:**

The Company makes an assessment of the purpose of the business model by which assets are held at the portfolio level because this better reflects the way the business is run and the information provided to management. Information taken into account includes:

- The specific policies and objectives of the portfolio and the operation of these policies in practice. In particular, whether management's strategy focuses on earning contracted interest income, maintaining specific interest rate information, matching the term of financial assets to the term of the liabilities financing those assets or generating cash flows through the sale of these assets.
- Evaluate how the portfolio is performing and submit a report thereon to the Company's management.
- The risks that affect the performance of the business model (and the financial assets held in the business model) and how those risks are managed.
- How business managers are rewarded - whether the rewards are based on the fair value of the assets under management or the contractual cash flows collected.
- Repetition of the volume and timing of sales in previous periods, the reasons for these sales and their expectations regarding future sales activity. However, information about sales activity is not taken into account when isolated, but as part of the overall assessment of how to achieve the mentioned company's objectives for managing financial assets and how cash flows are achieved.

The business model assessment is based on reasonably expected scenarios after excluding "**worst case**" or "**distress case**" scenarios. If the cash flows after initial recognition materialize in a way that differs from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in the business model but includes this information when valuing newly originated or newly purchased future financial assets.

**Assess whether the contractual cash flows are only payments of principal amount and interest**

For the purpose of this assessment, "**principal amount**" is defined as the fair value of the financial assets on initial recognition. "Interest" is the price of the time value of money and other basic credit and lending risks associated with the outstanding principal amount during a specified period and other basic lending costs (liquidity risks and administrative costs), along with a profit margin.

Upon assessing whether the contractual cash flows are solely payments of principal amount and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial assets have contractual terms that may change the timing or amount of contractual cash flows as a result of not meeting this condition. In making this assessment, the Company considers the following:

- Possible events that may change the amount and timing of cash flows.
- Leverage characteristics.
- Payment terms and extension.
- Conditions that limit the Company's claim to cash flows from specific assets (without recourse to the asset arrangement).
- Features that modify considerations of the time value of money - that is, periodic resetting of interest rates.

**4. Classification of Financial Liabilities**

The Company classifies its financial liabilities as a measure of amortized cost. Amortized cost is calculated by taking into account any discount or premium on the issuance of the financing and costs that are an integral part of the effective interest rate.

**5. De-Recognition**

**a. Financial Assets**

The Company ceases recognizing the financial assets when the contractual rights to cash flows from the financial assets expire or it transfers the rights to collect the contractual cash flows in the transaction through wherein all the risks and benefits of ownership of the financial assets are transferred or through which the Company does not transfer nearly all the significant risks and benefits of ownership or retains ownership and does not retain control over the financial assets.

In some transactions, the Company retains the obligation to serve the transferred financial assets for a fee. The transferred assets are derecognized, if the derecognition criteria are met. An asset or liability is recognized for a service contract if the fee for providing the service is more than sufficient (assets) or less than sufficient (liabilities) to perform the service. Financial assets created by the Company and subsequently disposed of to other parties are derecognized when the rights to receive the contractual cash flows and all the significant risks and rewards associated with the ownership of the financial asset are transferred. An intangible asset is recognized and classified as service providing rights under agency agreements in connection with any obligation to provide a service for a transferred lease under which the service fee adequately covers the related costs. These assets are accounted for in accordance with the accounting policy relating to intangible assets. The gain or loss arising from the transaction is recognized in the statement of profit or loss and other comprehensive income within income of agency arrangements.

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

- The price received (including any new assets acquired less any assumed new liabilities), and
- Any cumulative gain or loss recognized in other comprehensive income is recognized in profit or loss.

In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of the financial assets while it retains control of these assets, the Company continues to recognize the assets to the extent of its continuing involvement, which is determined by its exposure to changes in the value of the transferred assets

**b. Financial Liabilities**

The Company derecognizes a financial liability when its contractual obligations are discharged, canceled or expired.

### c. Modification of Financial Assets And Financial Liabilities

#### Financial Assets

If the terms of the financial assets are modified, the Company assesses whether the cash flows of the modified assets are materially different. If the cash flows are significantly different, then the contractual rights to the cash flows from the original financial asset are considered to have expired. In this case, the original financial assets are derecognized, and the difference is recognized as derecognized gains and losses, and new financial assets are recognized at fair value.

If the cash flows of the modified assets carried at amortized cost are not significantly different, then the modification does not derecognize the financial assets. In such case, the Company recalculates the total book value of the financial assets and records the amount resulting from the adjustment of the total book value as a profit or loss adjustment in the statement of profit or loss. If this adjustment is made due to the borrower's financial difficulties, then the gain or loss is presented together with the impairment loss. In other cases, it is shown as interest income.

#### Financial Liabilities

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

#### Expected Credit Losses

The Company recognizes an allowance for expected credit losses for the following financial instruments:

- Investments in finance lease contracts.
- Insurance claims payable on death cases in passive Finance Lease Contracts.

No impairment loss is recognized in equity investments.

The Company measures loss allowances at an amount equal to lifetime expected credit losses, except for other financial instruments for which credit risk has not increased significantly since its initial recognition.

The 12-month expected credit losses represent the portions of expected credit losses that result from default events on a financial instrument that are likely to occur within 12 months after the reporting date.

#### Measuring Expected Credit Losses (ECL)

ECLs are an estimate of the likely probability of credit loss. It is measured as follows:

- Financial assets that are not credit-impaired at the reporting date: measured at the present value of all cash shortfalls (the difference between the cash flows due to the entity in accordance with the contract and the cash flows the Company expects to collect), and
- Financial assets that are credit-impaired at the reporting date: measured as the difference between the total book value and the present value of the estimated future cash flows.

#### Restructured Financial Assets

If the terms of the financial assets are renegotiated or modified or if existing financial assets are replaced by new ones due to the borrower's financial difficulties, then an assessment is made as to whether the financial assets should be derecognized, and expected credit losses are measured as follows:

- If the expected restructuring does not result in a derecognition of existing assets, then the expected cash flows resulting from the modified financial assets are included in the calculation of cash shortfalls from existing assets; and

- If the expected restructuring results in the derecognition of existing assets, then the expected fair value of the new assets is treated as a final cash flow upon derecognition. This amount is included when calculating cash shortfalls from existing cash assets, which are discounted from the expected date of derecognition to the reporting date using the original effective interest rate for the existing financial assets.

**Credit Impaired Financial Assets**

The Company performs an assessment at each reporting date to determine whether financial assets carried at amortized cost are credit impaired. A financial asset is credit impaired when one or more events that have a negative impact on the estimated future cash flows of the financial asset have occurred.

Evidence that financial assets are credit impaired includes the following observable information:

- Significant financial difficulties facing the borrower or issuer.
- Breach of contract, such as default events or late payments.
- Restructuring exposure to conditions that the Company does not take into account.
- It becomes likely that the borrower will enter bankruptcy phase or other financial reorganization.
- Or the disappearance of the active market for securities due to financial difficulties.

A lease that has been renegotiated due to a deterioration in the borrower's position is normally considered credit impaired unless there is evidence that the risk of not receiving contractual cash flows has decreased significantly and there are no other indications of impairment.

**Presentation of the Provision For Expected Credit Losses in the Statement of Financial Position**

Allowances for expected credit losses are presented in the statement of financial position for financial assets measured at amortized cost as a deduction from the total carrying amount of the assets.

**Write Off**

Investments in finance leases as well as death insurance claims in inactive finance leases are written off (either in part or in full) when there is no realistic prospect of recovery. However, financial assets that are written off may still be subject to enforcement activities in order to comply with the Company's procedures towards recovering the amounts owed. If the amount to be written off is greater than the cumulative loss allowance, the difference is first treated as an addition to the allowance which is then applied against the gross carrying amount. Any subsequent recoveries are added to the provision for credit losses.

**Warranties Evaluation**

The Company seeks to use collateral, whenever possible, to reduce its credit risk on financial assets. Collateral is primarily in the form of real estate. The Company's accounting policy for collateral entrusted to it through lending contracts is under IFRS 9. Collateral is not recorded in the Company's statement of financial position unless ownership is repossessed.

However, the fair value of collateral affects the calculation of ECL. It is generally evaluated, at a minimum, at its inception and then re-evaluated periodically.

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

**Restoration of Collateral**

The Company's accounting policy for repossession of collateral is under IFRS 9. It is the Company's policy to determine whether repossessed assets can be best used for its internal operations or should be sold. Assets that are intended to be best used in operations are transferred to the relevant asset class for an amount less than their receivable value or the carrying amount of the original secured asset. Assets that have been determined that sale is the best option are transferred to available-for-sale assets at their fair value (if financial assets) and fair value less cost to sell non-financial assets at the repossession date, in line with the Company's policy.

**Recognition of Revenue/Expenses**

Income from investments in finance leases and finance costs are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated payments or receipts of cash flows through the expected life of the financial instrument at the amortized cost of the financial instrument.

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

The calculation of the effective interest rate includes transaction costs, fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash in hand and balances with local banks of good credit ratings.

**Investments in Finance Lease Contracts**

Investments in finance leases represents the net investment in finance leases which is receivable from customers at the expense of finance leases. Ijarah is an agreement whereby the Company acts as a lessor and buys the asset to rent it at the request of the customer (the lessee) and his promise to lease the asset at the agreed rent and the specified period that may end with transferring the ownership of the leased asset to the lessee.

All properties are leased in the name of the Company, except for those properties whose ownership has been transferred to the Arab National Bank (shareholder) in accordance with the terms of the facilities agreements related to tawarruq financing facilities (refer to note 19), and those properties whose ownership has been retained in the name of Kingdom of Installment Trading Company (shareholder) as a custodian in accordance with the custodian agreement. The contract with the customer is an Ijarah contract with an irrevocable promise to transfer title, whereby the statutory title deed of the asset will be transferred to the lessee upon settlement of all Ijarah installments.

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

**Recognition**

The origin of the lease is the date of the lease agreement or the date of the two parties' binding to the main terms of the lease, whichever is earlier. At the inception of the lease, the amounts to be recognized are determined at the beginning of the lease term.

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

### Revenue from Funding Requests and Evaluation Fees

Revenues from fees for financing applications and evaluation are calculated when a customer submits a financing application for evaluation and to determine whether he qualifies for a financing contract. The evaluation fee is non-refundable while the application fee can be refunded based on the success of the evaluation. Revenue from funding requests and appraisal fees is recognized when the transaction is completed or the service is provided.

The related fees and commission expense are recognized as an expense when the transaction is completed or the service is received.

### Indemnity

The Company applies an end-of-service gratuity plan for its employees in accordance with the prevailing Saudi labor law. The obligation is accrued based on the planned unit credit method. The employees' end of service benefit obligation is estimated using the employees' average service, the contractual age of retirement and the average past salary increments. The obligation is discounted using appropriate government bond rates in line with the requirements of IAS 19.

The amendment under IAS 19 "**Employee Benefits**" shows that market depth for high-quality government bonds is valued based on the currency in which the obligation is identified rather than the country in which the obligation is made. In the absence of a deep market for high-quality government bond rates in that currency, government bond rates should be used. See Note 20 for details about the assumptions and estimates.

Remeasurements of actuarial gains and losses are recognized immediately in the statement of financial position with the corresponding amounts credited to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not classified to profit or loss in subsequent periods.

The cost of previous services is recognized in the statement of profit or loss before:

- Date of plan modification or curtailment.
- The date the Company recording of the related restructuring costs.

Commission cost is calculated by applying the discount rate to the net defined benefit obligation. The Company recognizes the following changes in the net defined benefit obligation in the income statement:

- Service costs consist of current service costs, past service costs, and profits and losses from curtailments and non-routine settlements.
- Net interest expense or income.

### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Repair and maintenance expenses are expensed while the expenses are capitalized only when it is probable that future economic benefits will flow to the Company. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated useful life or the remaining lease term, whichever is less.

Table 6-3: The following are the estimated useful lives of the main classes of assets:

| | Rate |
|---|---|
| Rental property improvements | 10% |
| Cars | 25% |
| Furniture, furnishings and office equipment | 10% - 25% |
| Computers | 25% - 33.3% |

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

**Other Real Estate**

The Company, in the ordinary course of business, acquires or holds certain real estate in settlement of investments in finance leases. Such properties are considered as assets held for sale and are initially recognized at the net realizable value of the investment in finance leases or the current fair value of the related properties (whichever is less)less any selling costs (if significant).

No depreciation is charged for these properties.

After initial recognition, any reduction in fair value less costs to sell is charged to the income statement. Any subsequent reassessment in fair value gains less costs to sell these assets to the extent that the cumulative decrease does not exceed is recognized in the income statement. Gains or losses on disposal of these properties are recognized in the income statement.

**Intangible Assets**

Intangible assets acquired by the Company that have a finite useful life are measured at cost less accumulated amortization and accumulated impairment in value.

Intangible assets are amortized on a straight-line basis in the income statement over their estimated useful life from the date on which they are available for use.

Intangible assets consist of computer software and have an estimated useful life for the current and comparative years is 3-5 years. The amortization method and useful life are reviewed at least at the end of each reporting period.

**Impairment of Non-Financial Assets**

An assessment is made at each statement of financial position date to determine whether there is any indication that an asset may be impaired. If this indicator exists, or when annual impairment testing is required for the asset, the Company estimates the asset's recoverable amount. The recoverable amount of an asset is fair value or cash-generating unit's fair value less costs to sell or its value in use, whichever is higher, and is determined for each individual asset unless the asset does not generate cash inflows that are largely independent of the cash inflows from other assets or a group of assets. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount of the cash-generating unit. Previously recognized impairment losses are reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The amount of the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

**Accounting for Lease Contracts**

**Right to use assets and assets/lease obligations**

On initial recognition at the beginning of the contract, the Company makes an assessment to determine whether the contract is a lease or contains a lease. A contract is a lease or includes a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. Control is determined if most of the benefits flow to the Company and the Company can direct the use of these assets.

**Right of Use of the Assets**

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

- Less any accumulated depreciation and any accumulated impairment losses
- Amended for any re-measurement of lease commitments to modifications to the lease contract.

**Lease Obligations**

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

- An increase in the carrying amount to reflect the interest on lease commitments;
- A reduction in the carrying amount to reflect the lease payments made, and
- Remeasure the carrying amount to reflect any re-evaluation or modification of the lease.

**Fees for Establishing Deferred Contracts**

The deferred contract creation fee comprises of the unamortized portion of the commission paid to a shareholder for contracts created through the use of that shareholder's infrastructure, resources and customer base. This fee is amortized using the effective interest method over the term of the respective lease contracts.

**Advance Rent Payments**

Advance rent payments include advance rent received from customers and unused deposits and receipts from customers.

**Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities include staff related costs, maintenance obligations and legal advisory fees.

**Other Provisions**

A provision is recognized if, as a result of past events, the Company has showed a present legal or contractual obligation, the amount of which can be reliably estimated. It is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably. Provisions are reviewed at each statement of financial position date and adjusted to reflect current best estimates.

### Proposed Dividends and Transfers between Reserves

Dividends and appropriations allocated for reserves (excluding appropriations required by law), made after the balance sheet date are non-adjustment events and are disclosed in the financial statements during the year in which the appropriation/transfer takes place.

### Accounting for Zakat and Income Tax

#### Income Tax

Income tax expense or benefit for the period is the tax payable on taxable profit for the current period, based on the income tax rate applicable to each region, adjusted for changes in deferred tax assets and liabilities relating to temporary differences and losses for unused tax purposes.

The current income tax fee is calculated on the basis of tax laws enacted or principally enacted at the end of the reporting period. The Management shall periodically assess the position of tax returns in relation to cases in which the applicable tax regulation is subject to interpretation. It also creates the appropriate provisions on the basis of the amounts expected to be paid to the Authority.

Adjustments resulting from final income tax assessments are recorded in the period in which those assessments are made. Income tax expense or benefit for the period is the tax payable on taxable income for the current period, based on the applicable income tax rate adjusted for changes in deferred tax assets and liabilities relating to temporary differences and losses for unused tax purposes.

### International Financial Reporting Interpretations Committee (IFRIC) 23 Interpretation "Uncertainty over Income Tax Treatments"

The interpretation addresses the calculation of income taxes when tax treatments involve a doubt that affects the application of IAS 12. It does not apply to taxes or fees outside the scope of IAS 12 and does not specifically include requirements for interest and penalties associated with uncertain tax transactions. The interpretation specifically addresses the following:

- Whether the entity considers uncertain tax treatments separately.
- Assumptions made by the entity regarding the examination of tax treatments by the tax authorities.
- How the entity determines taxable profit (loss for tax purposes), tax base, losses for unused tax purposes, unused tax credits and tax rates.
- How the entity takes into account changes in facts and circumstances.

The Company must determine whether each uncertain tax treatment should be considered separately or in combination with one or more other uncertain tax treatments. The method that best predicts the resolution of uncertainty should be followed.

### Deferred Tax

The liability method is used when creating a provision for deferred tax on temporary differences arising between the carrying amounts of assets and liabilities for the purposes of preparing the financial statements and the amounts used for tax purposes. The amount of deferred tax is based on the expected method of realizing or settling the carrying amounts of assets and liabilities, using the tax brackets that have been enacted, or that will be fully enacted at the reporting date. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available, and the benefits can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets and liabilities and when the deferred tax credits relate to the same tax authority. Current tax assets and liabilities are offset when the entity has a legal right to set-off and intends either to settle it on a net basis or to realize the asset and settle the liability simultaneously.

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

**Zakat**

The Company is subject to Zakat in accordance with the regulations of the General Authority for Zakat, Tax and Customs ("**the Authority**"). Zakat expense is charged to the income statement. Zakat is not calculated as income tax and therefore no deferred tax related to Zakat is calculated.

**Transactions with Related Parties**

The Company has relationships with related parties that consist of related companies, associate companies, managers and key management personnel and entities over which managers or key management personnel exercise significant influence. In the ordinary course of business, the Company transacts with various related parties. Amounts due from and to related parties are disclosed in the relevant note.

**Foreign Currency Transactions**

Transactions in foreign currencies are translated into Saudi Riyals at the exchange rates prevailing on the date of those transactions. As for monetary assets and liabilities denominated in foreign currencies, they are translated into Saudi riyals at the exchange rates prevailing at the balance sheet date. Gains and losses arising from the settlement and translation of foreign currency transactions are recognized in the statement of comprehensive income.

**Expenses**

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

Selling and marketing expenses excluding compensation cost are those expenses related to sales and marketing representatives.

**Value Added Tax**

The Company collects VAT from its customers for eligible services provided and makes VAT payments to vendors for eligible payments. Transfers are made monthly, net of value added tax to the General Authority of Zakat, Tax and Customs, which represents the value added tax collected from its customers, net of any refundable value added tax on payments. The non-refundable VAT is charged to the Company and is charged or capitalized if payments for property, equipment and intangible assets are depreciated or amortized as part of the capital cost.

**Rights to Provide Service Under Agency Arrangements**

The intangible asset of rights to provide services under agency arrangements (acquired by the Company by selling lease contracts issued to third parties or as consideration for services in financing arrangements) is recognized at the present value of the net future cash flows under the agency arrangement. The Net Present Value calculation includes, among other things, estimates relating to the discount rate and fair value of services.

## 6-2 Results of Operations

### 6-2-1 Statement of Income

Table 6-4: Income statement for the fiscal years ending on December 31, 2018, 2019 and 2020:

| SAR'000 | Fiscal year 2018 (Audited) | Fiscal year 2019 (Audited) | Fiscal year 2020 (Audited) | Annual change 2018-2019 | Annual change 2019-2020 | (CAGR) 2018-2020 |
|---|---|---|---|---|---|---|
| Income from lease financing contracts | 302,058 | 298,572 | 290,115 | (1.20%) | (2.80%) | (2.00%) |
| Service fee, net | 10,156 | 8,783 | 7,298 | (13.50%) | (16.90%) | (15.20%) |
| Revenue from funding requests and evaluation fees | 2,932 | 4,014 | 5,274 | 36.90% | 31.40% | 34.10% |
| Other income | 238 | - | 655 | (100.00%) | N/A | 65.80% |
| **Gross operating profit** | **315,385** | **311,369** | **303,342** | **(1.30%)** | **(2.60%)** | **(1.90%)** |
| Financing Fee | (131,700) | (137,201) | (93,168) | 4.20% | (32.10%) | (15.90%) |
| General and administrative expenses | (50,692) | (71,863) | (93,688) | 41.80% | 30.40% | 35.90% |
| Provision for expected credit losses | (32,189) | (11,224) | (7,500) | (65.10%) | (33.20%) | (51.70%) |
| Selling and marketing expenses | (25,023) | (12,356) | (11,410) | (50.60%) | (7.70%) | (32.50%) |
| **Total operating expenses** | **239,605** | **232,643** | **205,766** | **(2.90%)** | **(11.60%)** | **(7.30%)** |
| **Net profit before Zakat and income tax** | **75,780** | **78,725** | **97,577** | **3.90%** | **23.90%** | **13.50%** |
| Zakat and income tax expense for the current year | (11,047) | (11,727) | (12,735) | 6.20% | 8.60% | 7.40% |
| Zakat for previous years | (25,461) | (12,832) | - | (49.60%) | (100.00%) | (100.00%) |
| Deferred tax | 1,455 | 495 | 274 | (66.00%) | (44.70%) | (56.60%) |
| **Total Zakat and Income Tax** | **(35,052)** | **(24,064)** | **(12,461)** | **(31.30%)** | **(48.20%)** | **(40.40%)** |
| **Net profit after Zakat and income tax** | **40,728** | **54,661** | **85,116** | **34.20%** | **55.70%** | **44.60%** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Table 6-5: Key performance indicators for the fiscal years ending on December 31, 2018, 2019 and 2020:

| As a percentage of revenue | Fiscal year 2018 (Audited) | Fiscal year 2019 (Audited) | Fiscal year 2020 (Audited) | Annual change 2018-2019 | Annual change 2019-2020 | (CAGR) 2018-2020 |
|---|---|---|---|---|---|---|
| General and administrative expenses | 16.10% | 18.10% | 30.90% | 2 | 12.8 | 14.8 |
| Provision for expected credit losses | 10.20% | 3.60% | 2.50% | (6.6) | (1.1) | (7.7) |
| Selling and marketing expenses | 7.90% | 9.00% | 3.80% | 1 | (5.2) | (4.2) |
| **Gross operating profit** | **76.00%** | **74.70%** | **67.80%** | **(1.3)** | **(6.9)** | **(8.1)** |
| Net profit after Zakat and income tax | 12.90% | 17.60% | 28.10% | 4.6 | 10.5 | 15.1 |
| | Performance indicators | | | Annual rate of change (percentage points) | | |
| Average Annual percentage rate | 7.10% | 6.90% | 6.70% | (0.2) | (0.2) | (0.4) |
| Average cost of financing | 4.60% | 4.90% | 3.30% | 0.3 | (1.5) | (1.2) |
| Total return | 2.50% | 2.00% | 3.30% | (0.5) | 1.3 | 0.8 |
| Portfolio Sale (Million Saudi Riyals) | - | - | 50 | N/A | N/A | 50 |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

### Operating Profit

The Company's operating profit principally consists of income from lease financing contracts, service fees, and loan and appraisal fee income. The Company's revenue stream comes primarily from the creation of Ijarah Loans, where capital and loans are obtained to finance the purchase of homes, residential land and apartments for retail clients. In 2014G, the Company sold a portfolio with Arab National Bank and used the proceeds to settle outstanding loans. The Company establishes sales for the Saudi Real Estate Refinance Company, and the portfolio is sold after 6 to 8 months while retaining the service fees. The focus of the Company in the type of employer throughout the historical period is mainly on the expected retirement income plan, retirees and government employees as it is less. The Saudi Home Loans Company has an approved and unapproved list of employers that are determined by the rating and history of the employers, which has an impact on the risk assessment that is made when processing loan applications. The Company's focus on operating profit by property type is mainly villas and apartments in the fiscal year 2020G, in line with market demand in the Kingdom of Saudi Arabia.

**Income From Lease Financing Contracts**

Income from lease financing contracts decreased by 1.2% from SAR 302.1 million in fiscal year 2018G to SAR 298.6 million in fiscal year 2019G as a result of the decrease in the average annual percentage rate by 0.2 percentage points due to price reductions in order to develop the portfolio in light of the increasing competition in the KSA market. This was also offset by a decrease in net investments in finance lease contracts for loans that originated in the 2018G fiscal year and the previous period, which led to a decrease in income from lease finance contracts by SAR 36.0 million during the fiscal period 2018G-2019G. This was partially offset by income from lease financing contracts from new establishments in fiscal year 2019G (SAR +30.6 million).

Income from lease financing contracts decreased by 2.8% to reach SAR 290.1 million in fiscal year 2020, mainly due to a decrease in the average annual percentage rate by 0.2 percentage points as a result of the decrease in SAIBOR rates by 1.5 percentage points during the same period. In addition, the financing income from loans issued in 2019G and prior periods decreased (SAR-32.6 million), partially offset by an increase in financing income from loans originating in fiscal year 2020G (+SAR 28.4 million).

**Service Fee, Net**

Service fees decreased by 13.5% from SAR 10.2 million in fiscal year 2018G to SAR 8.8 million in fiscal year 2019G mainly due to early settlements and repayments, which led to a decrease in the off-balance sheet financing portfolio.

The service fees were mainly represented in the 2019G fiscal year with the profit from the Arab National Bank portfolio, in addition to the one-month service fees for selling a portfolio to the Saudi Real Estate Refinance Company in December 2020G, which amounted to SAR 50 million. Service fees decreased by 16.9% and amounted to SAR 7.3 million in fiscal year 2020G, driven by early settlements and payment by customers, which led to a decrease in the size of the off-balance sheet portfolio.

**Revenue From Funding Requests and Evaluation Fees**

Revenue from financing applications and evaluation fees increased by 36.9% from SAR 2.9 million in fiscal year 2018G to SAR 4.0 million in fiscal year 2019G, driven by the increase in the number of applicants, in line with the Company's efforts to expand its portfolio.

Revenue from financing applications and evaluation fees increased by 31.4% and amounted to SAR 5.3 million in the fiscal year 2020G as a result of the increase in the number of applicants, in line with the Company's efforts to expand its portfolio.

Application fee and appraisal fee income is amortized on a monthly basis over the life of the loan and as such is likely to continue to increase through the creation of new contracts each year.

**Other Income**

Other income amounted to SAR 238 thousand in the fiscal year 2018G and relates to the income of Murabaha deposits from Gulf International Bank against a short-term deposit.

Other revenues amounted to SAR 655 thousand in the fiscal year 2020G, mainly related to fees submitted by the Saudi Real Estate Refinancing Company and the recovery of bad debts from an old client.

**Financing Fee**

Financing charges represented by the profits paid on the Tawarruq financing facility, which was used primarily for originating loans although management is able to use these funds for other working capital requirements.

Financing fees increased by 4.2% from SAR 131.7 million in fiscal year 2018G to SAR 137.2 million in fiscal year 2019G, mainly due to the slight increase in SAIBOR rates at that time.

Financing fees decreased by 32.1% to reach SAR 93.2 million in the fiscal year 2020G, due to the significant decrease in SAIBOR rates, starting from the first quarter of the 2020G fiscal year. In addition, the financing charges also decreased due to the postponement of loan installments that were due during the period from 14 March 2020G to 14 September 2020G, during which interest was also deferred. This was a result of the Saudi Central Bank's Private Sector Financing Program to provide support to the SME sector due to the COVID-19 pandemic.

**General And Administrative Expenses**

General and administrative expenses increased by 41.8% from SAR 50.7 million in fiscal year 2018G to SAR 71.9 million in fiscal year 2019G, mainly due to the increase in the number of employees (+24 employees).

General and administrative expenses increased by 66.3% to reach SAR 93.7 million in the fiscal year 2020G as a result of the impact of the full year for newly appointed employees in the fiscal year 2019G, in addition to an increase in the total number of employees (+13 employees).

The Company hired new employees in its various divisions as a result of preparations for its growth strategy, which included an increase in construction targets, expansion of other products, and improvement of support operations (mainly call center, compliance, collections, and cyber security).

**Allowance For Expected Credit Losses**

The expected credit loss allowance decreased by 65.1% from SAR 32.2 million in fiscal year 2018G to SAR 11.2 million in fiscal year 2019G mainly due to the high rates of delay in payments and the application of IFRS 9 for the first time in the fiscal year 2018G. The Company made additional efforts to speed up the collection process starting from the fiscal year 2019G by appointing additional employees in the collection team and enhancing the collection incentives, which led to a decrease in provisions in the 2019G fiscal year.

The expected credit loss allowance decreased by 33.2% to reach SAR 7.5 million in the fiscal year 2020G, mainly due to the background of continued benefits achieved through additional collection efforts and improvements in operational efficiencies.

**Selling and Marketing Expenses**

Selling and marketing expenses mainly consist of contract creation expenses, appraisal fees, sales commission and transfer of ownership. Selling and marketing expenses decreased by 50.6% from SAR 25.0 million in fiscal year 2018G to SAR 12.4 million in fiscal year 2019G, mainly due to a decrease in portfolio insurance fees (SAR -13.7 million) as a result of reclassifying the account to general and administrative expenses as of the fiscal year 2019G.

Selling and marketing expenses decreased by 7.7% to reach SAR 11.4 million in the fiscal year 2020G as a result of a decrease in marketing expenses (SAR -2.4 million) in line with the Company's decision to reduce expenses due to the Covid-19 pandemic, which was facilitated by the instructions of the Saudi Central Bank to refrain from marketing activities for a period of 3 months during the fiscal year 2020G.

**Total Zakat and Income Tax**

The Company submitted its Zakat and income tax returns for the years from 2008G to 2019G and received the final assessment until 2018G. The total Zakat and income tax decreased by 31.3% from SAR 35.1 million in the 2018G fiscal year to SAR 24.1 million in the 2019G fiscal year, mainly due to the decrease in Zakat for previous years (SAR -12.6 million Saudi riyals).

The total Zakat and income tax decreased by 48.2% to reach SAR 12.5 million in the fiscal year 2020G mainly due to a decrease in Zakat for previous years (SAR -12.8 million) as a result of the Company accepting another settlement in June 2019G to liquidate all due assessments for the fiscal years from 2008G to 2013G and was paid to the Zakat and Income Authority.

### Net Profit After Zakat and Income Tax

The net profit after Zakat and income tax increased from SAR 40.7 million in the fiscal year 2018G to SAR 54.7 million in the 2019G fiscal year. The net profit after Zakat and income tax continued to rise to SAR 85.1 million in the 2020G fiscal year, mainly due to Zakat payments for previous years (SAR 25.5 million in the 2018G fiscal year and SAR 12.8 million in the 2019G fiscal year). In addition, the Company benefited from the decrease in the average financing cost (SAR -44.0 million during the fiscal period 2019G-2020G), which led to an increase in net profit after Zakat and income tax by SAR 30.5 million in the 2020G fiscal year.

### Financing Fee

Table 6-6: Movement during the year for the fiscal years ending on December 31, 2018, 2019 and 2020:

| SAR'000 | Fiscal year 2018 (Audited) | Fiscal year 2019 (Audited) | Fiscal year 2020 (Audited) | Annual change 2018-2019 | Annual change 2019-2020 | (CAGR) 2018-2020 |
|---|---|---|---|---|---|---|
| Balance at the beginning of the year | 2,824,238 | 2,824,238 | 2,801,923 | 0.00% | (0.80%) | (0.40%) |
| Loans during the year | 275,000 | 357,678 | 224,322 | 30.10% | (37.30%) | (9.70%) |
| Repaid during the year | (282,672) | (380,324) | (212,370) | 34.50% | (44.20%) | (13.30%) |
| Finance fees due during the year | 131,700 | 137,201 | 93,168 | 4.20% | (32.10%) | (15.90%) |
| Finance fees paid during the year | (127,890) | (136,870) | (87,159) | 7.00% | (36.30%) | (17.40%) |
| **Balance at the end of the year** | **2,824,238** | **2,801,923** | **2,819,884** | **(0.80%)** | **0.60%** | **(0.10%)** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Table 6-7: Financing fees related to the facilities for the financial years ending on December 31, 2018, 2019 and 2020:

| SAR'000 | Fiscal year 2018 (Audited) | Fiscal year 2019 (Audited) | Fiscal year 2020 (Audited) | Annual change 2018-2019 | Annual change 2019-2020 | (CAGR) 2018-2020 |
|---|---|---|---|---|---|---|
| Arab national Bank | 109,899 | 103,241 | 62,160 | (6.10%) | (39.80%) | (24.80%) |
| Gulf International Bank | 12,675 | 20,762 | 13,932 | 63.80% | (32.90%0 | 4.80% |
| International Finance Corporation | 9,126 | 10,059 | 6,317 | 10.20% | (37.20%) | (16.80%) |
| National Commercial Bank | - | 3,138 | 9,761 | N/A | 211.10% | N/A |
| Saudi Real Estate Refinance Company | - | - | 998 | N/A | N/A | N/A |
| **Total** | **131,700** | **137,200** | **93,168** | **4.20%** | **(32.10%)** | **(15.90%)** |
| **Average cost of financing** | **4.60%** | **4.90%** | **3.30%** | **0.3** | **(1.6)** | **(1.3)** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

It is planned to repay the Tawarruq financing facilities is to be carried out as follows:

Table 6-8: Schedule of payment of financing facilities for the fiscal years ending on December 31, 2018, 2019 and 2020:

| years | As at 31 December 2018G (Audited) | As at 31 December 2019G (Audited) | As at 31 December 2020G (Audited) |
|---|---|---|---|
| 2019 | 651,156 | - | - |
| 2020 | 378,685 | 429,424 | - |
| 2021 | 765,313 | 808,244 | 1,105,227 |
| 2022 | 824,959 | 517,313 | 514,525 |
| 2023 | 157,250 | 760,804 | 796,900 |
| 2024 | 31,250 | 53,429 | 60,361 |
| 2025 | 15,625 | 37,804 | 65,556 |
| 2026 - 2034 | - | 194,905 | 277,316 |
| **Total** | **2,824,238** | **2,801,923** | **2,819,884** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Financing fees increased by 4.2% from SAR 131.7 million in fiscal year 2018G to SAR 137.2 million in fiscal year 2019G, mainly due to the increase in financing cost from 4.6% in fiscal year 2018G to 4.9% in fiscal year 2019G. Funding cost increase is mainly to carry forward the outstanding loans, which are being renewed at the SAIBOR rate at that time. This practice is in line with the conventions and has resulted in the carryover of loans at higher SAIBOR rates.

Financing charges decreased by 32.1% to reach SAR 93.2 million in fiscal year 2020G mainly due to the sharp drop in SAIBOR rates in fiscal year 2020, which was also affected by the COVID-19 pandemic. The Company benefited from lower SAIBOR rates which led to a decrease in the cost of financing, which in turn improved its profitability.

The Saudi Central Bank issued a new directive in 2018G that states that the total bank exposure values to an individual, a sole proprietorship or a partnership should not be more than 5% of the eligible capital base available to banks at all times given that ANB already has relatively large facilities combined with a large outstanding balance, the Company's financing strategy has shifted towards other lenders and with this, the Company has sought to diversify its financing facilities and reduce dependence on the Arab National Bank.

**General and administrative expenses**

Table 6-9: General and administrative expenses for the fiscal years ending on December 31, 2018, 2019 and 2020:

| SAR'000 | Fiscal year 2018 (Audited) | Fiscal year 2019 (Audited) | Fiscal year 2020 (Audited) | Annual change 2018-2019 | Annual change 2019-2020 | (CAGR) 2018-2020 |
|---|---|---|---|---|---|---|
| Employee salaries and other benefits | 36,377 | 40,361 | 49,474 | 11.00% | 22.60% | 16.60% |
| Portfolio insurance fee | - | 13,243 | 15,194 | N/A | 14.70% | N/A |
| Depreciation and amortization | 2,778 | 5,327 | 5,201 | 91.70% | (2.40%) | 36.80% |
| Impairment loss on other properties | - | - | 4,857 | N/A | N/A | N/A |
| Consulting fees | 3,204 | 2,834 | 4,620 | (11.50%) | 63.00% | 20.10% |
| Software support fee | 1,138 | 1,632 | 2,855 | 43.40% | 74.90% | 58.40% |
| Collection commission | - | 2,278 | 2,501 | N/A | 9.80% | N/A |
| VAT expenses | 461 | 426 | 2,134 | (7.60%) | 401.20% | 115.20% |
| Provision for a Legal Claim | - | 476 | 1,718 | N/A | 261.20% | N/A |
| Communication expenses | 781 | 693 | 920 | (11.20%) | 32.80% | 8.60% |
| Repair and maintenance | 403 | 344 | 616 | (14.60%) | 79.30% | 23.70% |
| Bank fees | 484 | 590 | 471 | 21.90% | (20.20%) | (1.40%) |
| Travel expenses | 667 | 769 | 373 | 15.30% | (51.50%) | (25.30%) |
| Recruitment expenses | 352 | 227 | 248 | (35.40%) | 8.90% | (16.10%) |
| Stationery and prints | 179 | 136 | 164 | (24.00%) | 20.20% | (4.40%) |
| Withholding tax | 59 | 29 | 11 | (51.30%) | (60.40%) | (56.10%) |
| Rent | 2,754 | - | - | (100.00%) | N/A | (100.00%) |
| Other | 1,056 | 2,498 | 2,331 | 136.50% | (6.70%) | 48.50% |
| **Total** | **50,692** | **71,863** | **93,688** | **41.80%** | **30.40%** | **35.90%** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Table 6-10: Key performance indicators for the fiscal years ending on December 31, 2018, 2019 and 2020:

| KPIs | Fiscal year 2018 (Audited) | Fiscal year 2019 (Audited) | Fiscal year 2020 (Audited) | Annual change 2018-2019 | Annual change 2019-2020 | (CAGR) 2018-2020 |
|---|---|---|---|---|---|---|
| | KPIs | | | Change | | |
| Number of Employees | 127 | 151 | 164 | 24 | 13 | 37 |
| Average monthly salary per employee | 16.489 | 14.696 | 15.922 | (10.90%) | 8.30% | (1.70%) |
| Saudi employees as a percentage of the total number of employees | 77.20% | 80.80% | 86.00% | 3.6 | 5.2 | 8.8 |
| | As a percentage of revenue | | | percentage point | | |
| Employee salaries and other benefits | 11.50% | 13.00% | 16.30% | 1.4 | 3.3 | (4.8) |
| Portfolio insurance fee | 0.00% | 4.30% | 5.00% | 4.3 | 0.8 | (5.0) |
| Depreciation and amortization | 0.90% | 1.70% | 1.70% | 0.8 | 0 | (0.8) |
| Impairment loss on other properties | 0.00% | 0.00% | 1.60% | - | 1.6 | (1.6) |
| Consulting fees | 1.00% | 0.90% | 1.50% | (0.1) | 0.6 | (0.5) |
| Software support fee | 0.40% | 0.50% | 0.90% | 0.2 | 0.4 | (0.6) |
| Collection commission | 0.00% | 0.70% | 0.80% | 0.7 | 0.1 | (0.8) |
| Value-added tax expenses | 0.10% | 0.10% | 0.70% | 0 | 0.6 | (0.6) |
| Judgment against the legal case | 0.00% | 0.20% | 0.60% | 0.2 | 0.4 | (0.6) |
| Other | 2.10% | 1.70% | 1.70% | (0.4) | - | 0.4 |
| **Total** | **16.10%** | **23.10%** | **30.90%** | **7.0** | **7.8** | **(14.8)** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

### Employee Salaries and Other Benefits

Staff salaries and other benefits consist mainly of basic salaries, medical insurance for employees, bonuses, social security and other expenses. Employee salaries and other benefits increased by 11.0% from SAR 36.4 million in fiscal year 2018G to SAR 40.4 million in fiscal year 2019G as a result of the increase in salaries (SAR +1.5 million) and medical expenses (SAR +1.0 million) in line with the increase in number of employees (+24 employees). It is worth noting that the decrease in the average monthly salary for each employee by 10.9% from SAR 16.5 thousand in the fiscal year 2018G to SAR 14.7 thousand in the 2019G fiscal year was the result of the timing impact of appointment of employees during the period.
Employee salaries and other benefits increased by 22.6% to reach SAR 49.5 million Saudi riyals in the fiscal year 2020G as a result of the increase in salaries (SAR + 4.7 million) as a result of the passage of a year since the date of the appointment of new employees in the 2019G fiscal year, in addition to the increase in the number of employees (+13 employees) in the fiscal year 2020G. The rise is also attributed to an increase in bonuses (SAR +1.5 million) in line with the Company's improvement in performance, in addition to an increase in medical expenses (SAR +1.1 million) due to the increase in the number of employees.

### Portfolio Insurance Fee

Portfolio insurance fee represents life insurance (from Medgulf Insurance) on the outstanding amount for each individual loan, coverage includes life insurance or disability of the client. Portfolio insurance fees amounted to SAR 13.2 million in the fiscal year 2019G, due to the reclassification of the account from selling and marketing expenses to general and administrative expenses after consulting the external auditor.

Portfolio insurance fees increased by 14.7% from SAR 13.2 million in fiscal year 2019G to SAR 15.2 million in fiscal year 2020G in line with the increase in the percentage of older clients in the Company's portfolio, which resulted in an increase in insurance cost (SAR +1.9 million).

### Depreciation and Amortization

Depreciation and amortization expenses mainly relate to plant and equipment, in addition to the amortization of right-of-use assets as per International Financial Reporting Standard 16 (IFRS 16). Depreciation and amortization increased by 91.7% from SAR 2.8 million in fiscal year 2018G to SAR 5.3 million in fiscal year 2019G as a result of applying International Financial Reporting Standard 16 (IFRS 16) at the beginning of 2019G.

Depreciation and amortization decreased by 2.4% to reach SAR 5.2 million in the fiscal year 2020G as a result of the decrease in the amortization of intangible assets in line with the obsolescence of assets.

### Impairment Loss on Other Properties

Other property impairment loss relates to impairment of property which is mostly acquired through the courts, and by mutual agreement with the customer. Legal cases are filed and therefore property recovery may be delayed. The Company aims to refinance real estate after recovering it and assess its market value. The impairment loss in the value of other properties amounted to SAR 4.9 million in the fiscal year 2020G, due to the decrease in the market value of real estate in the year 2020G.

### Consulting Fees

Consulting fees are represented in the fees of legal and administrative consultants, fees of Sharia council consultants, fees of cyber security consultants and audit fees.

Consulting fees decreased by 11.5% from SAR 3.2 million in the fiscal year 2018G to SAR 2.8 million in the 2019G fiscal year. This decrease is mainly due to the decrease in the fees of legal and administrative consultants (SAR -505 thousand) in line with the decrease in legal procedures.

Consulting fees increased by 63.0% to reach SAR 4.6 million in the fiscal year 2020G. This increase is mainly due to the increase in the fees of legal and administrative consultants. The Company lost 4 court cases in the fiscal year 2020G, which led to a settlement of SAR 1.2 million, in addition to an increase in fees for cyber security consultants, in line with the cyber security guidelines issued by the Central Bank of Saudi Arabia.

**Software Support Fees**

Software support fees are from annual agreements with software support and licensing companies. Program support fees increased by 43.4% from SAR 1.1 million in fiscal year 2018G to SAR 1.6 million in fiscal year 2019G in line with additional requirements for cyber security and digitization.

Program support fees increased by 74.9% to reach SAR 2.9 million in fiscal year 2020G, in line with the Saudi Central Bank's updates on cyber security and compliance requirements.

**Collection Commission**

Collection commission represents the amounts disbursed to the collection department based on the collection level in the year. This came to stimulate and increase cash collection and improve the level of overdue loans. Collection commissions represent the bulk of the collection department salaries in addition to the basic monthly salaries.

The Company did not record any collection commission costs in the fiscal year 2018G as a result of recording the amount in the selling and marketing expenses as part of the sales commission and transfer of ownership, and it was reclassified in the fiscal year 2019G onwards by the external auditor.

The collection commission increased by 9.8% from SAR 2.3 million in the fiscal year 2019G to SAR 2.5 million in the 2020G fiscal year. This is mainly due to the growth of the Company's portfolio, which led to an increase in collection, in addition to the increased focus of the Company on collection.

**Value-Added Tax (VAT) Expenses**

Value-added tax expenses were relatively stable at an average of SAR 433 thousand during the years 2018G and 2019G.

Value-added tax expenses increased by 401.2% from SAR 461 thousand in the fiscal year 2019G to SAR 2.1 million in the year 2020G due to changes to the non-exempt value-added tax, in addition to the decision to replace the value-added tax (15%) with the real estate transaction tax (5%) in October of the fiscal year 2020G, as it is not possible to obtain a full refund of the amounts paid on the real estate tax.

**Legal Claim Provision**

The provision for a legal claim relates to the difference between the market value and the book value of properties that are still under legal process. The provision is calculated based on an estimate of the recoverability of the finance lease investment and is not driven by changes in the property value. Revaluation is carried out from time to time on real estate subject to legal processes.

The legal claim provision increased by 261.2% from SAR 476 thousand in the fiscal year 2019G to SAR 1.7 million in the 2020G fiscal year due to the increase in lawsuits.

**Communication Expenses**

Communications expenses consist mainly of telephone and internet expenses. Communications expenses decreased by 11.2% from SAR 781 thousand in the fiscal year 2018G to SAR 693 thousand in the 2019G fiscal year.

Communications expenses increased by 32.8% to reach SAR 920 thousand in the fiscal year 2020G due to the current Covid-19 pandemic.

#### Repair and Maintenance

Repair and maintenance expenses mainly relate to repair expenses related to buildings and offices. Repair and maintenance costs decreased by 14.6% from SAR 403 thousand in the fiscal year 2018G to SAR 344 thousand in the 2019G and increased by 79.3% to reach SAR 616 thousand in the 2020G in line with the Company's needs.

#### Bank Fees

Bank fees include commissions, transfer fees and fees related to the SADAD system. Bank fees increased by 21.9% from SAR 484 thousand in the fiscal year 2018G to SAR 590 thousand in the 2019G fiscal year, in line with the increase in the number of payments made through the SADAD system.

Bank fees decreased by 20.0% to reach SAR 471 thousand in the fiscal year 2020G as a result of the Company discontinuing the operation an automated teller machine in the main office due to the Covid-19 virus.

#### Travel Expenses

Travel expenses include accommodation costs and airline tickets. Travel expenses increased by 15.3% from SAR 667 thousand in the 2018G fiscal year to SAR 769 thousand in the 2019G in line with the Company's needs, and travel expenses decreased by 51.1% to reach SAR 373 thousand in the 2020G  due to the current Covid- 19 pandemic.

#### Recruitment Expenses

Recruitment expenses include expenses paid to hiring companies. Recruitment expenses decreased by 35.4% from SAR 352 thousand in the fiscal year 2018G to SAR 227 thousand in the 2019G fiscal year, mainly due to the decrease in the Company's reliance on recruitment companies. Recruitment expenses increased by 8.9% to reach SAR 248 in the fiscal year 2020G, in line with the increase in the number of employees.

#### Stationery and Publications

Stationery and publications decreased by 24.0% from SAR 179 thousand in the fiscal year 2018G to SAR 136 thousand in the fiscal year 2019G, in line with the Company's needs. Stationery and publications increased by 20.2% to reach SAR 164 thousand in the fiscal year 2020G, in line with the Company's needs.

#### Withholding Tax

Withholding tax decreased by 51.3% from SAR 59 thousand in the fiscal year 2018G to SAR 29 thousand in the 2019G and continued to decline in the 2020G fiscal year by 60.4% to reach SAR 11 thousand.

#### Other

Other expenses consist mainly of training expenses, shipping and subscriptions. Other costs increased by 136.5% from SAR 1.1 million in fiscal year 2018G to SAR 2.5 million in fiscal year 2019G as a result of the increase in training and other expenses.

Other costs decreased by 6.7% to reach SAR 2.3 million in the fiscal year 2020G as a result of the decrease in subscription fee expenses.

**Allowance For Expected Credit Losses**

Table 6-11: The following table shows the obsolescence of investments in lease contracts for the fiscal years ending on December 31, 2018, 2019 and 2020G:

| SAR'000 | Fiscal year 2018 (Audited) | Fiscal year 2019 (Audited) | Fiscal year 2020 (Audited) |
|---|---|---|---|
| Current | 2,754,764 | 2,961,462 | 2,767,257 |
| 1-30 days | 861,699 | 760,490 | 942,691 |
| 31-60 days | 408,581 | 295,408 | 296,798 |
| 61-90 days | 22,896 | 89,164 | 60,066 |
| 91-180 days | 36,226 | 31,286 | 18,436 |
| 180 + days | 106,159 | 100,607 | 113,890 |
| **Total** | **4,190,325** | **4,238,417** | **4,199,138** |
| As a percentage of total | | | |
| Current | 65.70% | 69.90% | 65.90% |
| 1-30 days | 20.60% | 17.90% | 22.50% |
| 31-60 days | 9.80% | 7.00% | 7.10% |
| 61-90 days | 0.60% | 2.10% | 1.40% |
| 91-180 days | 0.90% | 0.70% | 0.40% |
| 180 + days | 2.50% | 2.40% | 2.70% |

Source: Management information

Investments in finance lease contracts that are more than 31 days past due decreased from 14.6% in the 2018G fiscal year to 12.6% in the 2019G fiscal year and continued to decline to 12.4% in the 2020G fiscal year. This is mainly due to the increase in the Company's focus on collection, which also resulted in reduction in allowances for expected credit losses.

### Selling and Marketing Expenses

Table 6-12: Selling and Marketing Expenses for the Fiscal Years Ended on 31 December 2018G, 2019G and 2020G:

| SAR'000 | Fiscal year 2018 (Audited) | Fiscal year 2019 (Audited) | Fiscal year 2020 (Audited) | Annual change 2018-2019 | Annual change 2019-2020 | (CAGR) 2018-2020 |
|---|---|---|---|---|---|---|
| Contract Implementation expenses | 3,746 | 4,128 | 3,976 | 10.20% | (3.70%) | 3.00% |
| Evaluation fees | 1,990 | 2,282 | 2,668 | 14.70% | 16.90% | 15.80% |
| Sales and property transfer commission | 2,793 | 2,098 | 2,635 | (24.90%) | 25.60% | (2.90%) |
| Marketing expenses | 2,565 | 3,627 | 1,250 | 41.40% | (65.50%) | (30.20%) |
| Insurance expenses | 13,726 | - | - | (100.00%) | N/A | (100.00%) |
| Other | 204 | 221 | 881 | 8.70% | 298.00% | 108.00% |
| **Total** | **25,023** | **12,356** | **11,410** | **(50.60%)** | **(7.70%)** | **(32.50%)** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Table 6-13: Key performance indicators for the fiscal years ending on December 31, 2018, 2019 and 2020:

| As a percentage of revenue | Fiscal year 2018 (Audited) | Fiscal year 2019 (Audited) | Fiscal year 2020 (Audited) | Annual change 2018-2019 | Annual change 2019-2020 | (CAGR) 2018-2020 |
|---|---|---|---|---|---|---|
| Contract Implementation expenses | 1.20% | 1.30% | 1.30% | 0.1 | (0.0) | (0.1) |
| Evaluation fees | 0.60% | 0.70% | 0.90% | 0.1 | 0.1 | (0.2) |
| Sales and property transfer commission | 0.90% | 0.70% | 0.90% | (0.2) | 0.2 | 0.0 |
| Marketing expenses | 0.80% | 1.20% | 0.40% | 0.4 | (0.8) | 0.4 |
| Insurance expenses | 4.40% | 0.00% | 0.00% | (4.4) | - | 4.4 |
| Other | 0.10% | 0.10% | 0.30% | 0.0 | 0.2 | (0.2) |
| **Total** | **7.90%** | **4.00%** | **3.80%** | **(4.0)** | **(0.2)** | **4.2** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

### Contract Creation Expenses

Contract creation expenses relate to commission and expenses paid to ANB as part of the Company's profit-sharing agreement in respect of the Company's off-balance sheet portfolio with ANB. Contract creation expenses increased by 10.2% from SAR 3.7 million in fiscal year 2018G to SAR 4.1 million in fiscal year 2019G as a result of early payment by customers.

Contract creation expenses decreased by 3.7% from SAR 4.1 million in fiscal year 2019G to SAR 4.0 million in fiscal year 2020G as a result of the decrease in the off-balance sheet portfolio.

#### Appraisal Fee

Appraisal fees relate to fees related to real estate appraisal, which are performed as part of loan applications, on a periodic basis on an as-needed basis. The appraisal fee increased by 14.7% from SAR 2.0 million in the fiscal year 2018G to SAR 2.3 million in the 2019G, and the assessment fees continued to rise by 16.9% to reach SAR 2.7 million in the 2020G, due to the increase in the number of Loan applications, as well as additional valuation of other properties.

#### Sales Commission and Ownership Transfer

Sales commission and ownership transfer relates to commission paid on contract creation from sales personnel. The commission for collecting sales and ownership decreased by 24.9% from SAR 2.8 million in fiscal year 2018G to SAR 2.1 million in fiscal year 2019G as a result of reclassifying collection commissions to general and administrative expenses. The commission on sales and transfer of ownership increased by 25.6% to reach SAR 2.7 million in the fiscal year 2020G, in line with the growth in commercial operations through an increase in the number of loans.

#### Marketing Expenses

Marketing expenses represent expenses related to marketing and advertising such as agreements with marketing agencies and expenses related to social media marketing. Marketing expenses increased by 41.4% from SAR 2.6 million in fiscal year 2018G to SAR 3.6 million in fiscal year 2019G, due to the appointment of a new marketing specialist to focus on increasing the Company's presence on social media platforms.

Marketing expenses decreased by 65.5% to reach SAR 1.3 million in the fiscal year 2020G, in line with the Company's decision to reduce marketing expenses as a result of the Covid-19 pandemic, as well as the suspension of marketing activities for a period of 3 months based on the directives of the Central Bank of Saudi Arabia.

#### Insurance Expenses

Insurance expenses amounted to SAR 13.7 million in the fiscal year 2018G and were reclassified in the fiscal year 2019G to general and administrative expenses at the request of the external auditor.

#### Other

Other costs consist of many sales-related elements of the credit approval process. Other costs increased by 8.7% from SAR 204 thousand in the fiscal year 2018G to SAR 221 thousand in the 2019G fiscal year. Other costs increased by 298% to reach SAR881 thousand in fiscal year 2020G, mainly due to requesting additional information from SIMAH for internal purposes. In addition, the increase was also a result of the updated operational requirements to register all new deals with "**Sijil**", which cost around SAR 500 per deal.

### Total Zakat and Income Tax

Table 6-14: Movement in the Company's provision for Zakat and income tax for the year ended 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Balance at the beginning of the year | 6,656 | 36,414 | 27,978 |
| Zakat provision for the current year | 5,987 | 6,946 | 7,970 |
| Zakat provision for previous years | 25,367 | 12,832 | - |
| Income tax provision for the current year | 5,060 | 4,781 | 4,765 |
| Income Tax Adjustments | 94 | - | - |
| Paid during the year | (6,750) | (32,995) | (16,068) |
| Balance at the end of the year | 36,414 | 27,978 | 24,645 |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

### Provision for Zakat and Income Tax

Zakat is a tax as determined by the General Authority for Zakat, Tax and Customs in the Kingdom of Saudi Arabia on Saudi shareholders. The movements in the Company's provision for Zakat and income tax are mainly due to settlement agreements with the General Authority for Zakat, Tax and Customs to settle existing Zakat-related assessments of previous years. The Company accepted a settlement agreement in February 2019G to settle the due valuation balance related to Zakat for the fiscal years 2014G to 2017G, in addition to paying the amount of Zakat due for fiscal year 2018G. The Company agreed to pay an advance payment of SAR 5.1 million in March 2019G, and the remaining balance is to be paid in 5 equal installments for the amounts due in December of each year, starting in 2019G. The remaining balance to be paid for this settlement amounted to SAR 12.2 million as of 31 December 2020G. In addition, the Company accepted another settlement in June 2019G to settle all outstanding assessments for the fiscal years from 2008G to 2013G, which amounted to SAR 12.8 million and were paid to the General Authority of Zakat, Tax and Customs. The provision for Zakat and income tax amounted to SAR 24.6 million as of 31 December 2020G. This mainly included Zakat expense calculated on the basis of Zakat rules for financing companies, tax adjustments related to non-deductible items, and Zakat installments for settlements with the General Authority of Zakat, Tax and Customs related to the fiscal years 2014G - 2017G.

**Deferred Tax Assets of the Company for the Year Ended 31 December:**

Table 6-15: The following table shows the deferred tax assets for the year ending on 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Balance at the beginning of the year | 2,613 | 4,069 | 4,564 |
| Movement during the period | 1,455 | 495 | 274 |
| Balance at the end of the year | 4,069 | 4,564 | 4,837 |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Deferred tax principally comprises the employees' end of service benefits obligation and the provision for expected credit losses for investments in finance leases and depreciation of property and equipment.

## 6-2-2 Financial Position - Statement of Financial Position

**Statement Of Financial Position**

Table 6-16: The statement of the Company's financial position as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Assets | | | |
| Cash and Cash Equivalent | 79,643 | 54,200 | 142,328 |
| Prepaid expenses and other assets, net | 37,999 | 64,263 | 67,771 |
| Advance payments to property owners | 5,911 | 2,393 | 6,774 |
| Due from related parties | 897 | 765 | 633 |
| Investment | 893 | 893 | 893 |
| Investments in finance leases, net | 4,190,325 | 4,238,416 | 4,199,139 |
| Fees for establishing deferred contracts | 29,810 | 25,792 | 22,028 |
| Other properties | 2,830 | 6,963 | 8,657 |
| Right-of-use assets | - | 6,309 | 3,806 |
| Property and equipment, net | 4,065 | 4,768 | 5,272 |
| Deferred tax assets | 4,069 | 4,564 | 4,837 |

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Intangible assets, net | 3,562 | 3,157 | 2,500 |
| **Total assets** | **4,360,005** | **4,412,483** | **4,464,638** |
| Liabilities | | | |
| Accounts Payable | (30,938) | (50,593) | (8,106) |
| Accrued expenses and other liabilities | (6,507) | (9,096) | (9,326) |
| Advance rental payments | (7,779) | (7,496) | (4,397) |
| Lease Contracts obligations | - | (5,930) | (3,842) |
| Provision for Zakat and income tax | (36,414) | (27,978) | (24,645) |
| Tawarruq financing facilities | (2,824,238) | (2,801,923) | (2,819,88)4 |
| End of Service Benefit Obligation | (8,590) | (9,377) | (8,372) |
| **Total Liabilities** | **(2,914,466)** | **(2,912,393)** | **(2,878,571)** |
| Equity | | | |
| Capital | 1,000,000 | 1,000,000 | 1,000,000 |
| Statutory reserve | 92,182 | 97,649 | 106,160 |
| Other reserves | 407 | 296 | 1,157 |
| Retained earnings | 352,950 | 402,145 | 478,749 |
| **Total Equity** | **1,445,539** | **1,500,089** | **1,586,066** |
| **Total Liabilities and Equity** | **4,360,005** | **4,412,482** | **4,464,637** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Table 6-17: Key performance indicators for the fiscal years ending on December 31, 2018, 2019 and 2020:

| KPIs | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| ANB's off-balance sheet portfolio (first payment) (thousand Saudi riyals) | 115,855 | 96,435 | 80,048 |
| Arab National Bank's off-balance sheet portfolio (second instalment) (thousand Saudi riyals) | 182,661 | 158,791 | 134,485 |

| KPIs | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Arab National Bank's off-balance sheet portfolio (third instalment) (thousand Saudi riyals) | 126,203 | 109,487 | 92,903 |
| Debt Service Ratio | 49.50% | 50.60% | 51.50% |
| Loan for value | 85.30% | 84.90% | 82.60% |
| Debt to Equity* | 1.9 | 1.9 | 1.7 |
| Return on assets | 0.90% | 1.20% | 1.90% |
| Return on equity | 2.80% | 3.60% | 5.40% |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

* The financing structure of the Company is represented by the paid-in capital from partners, in addition to borrowing from local banks. The debt-to-equity ratio represented 1.9 as on December 31, 2018 and 2019 and decreased to 1.7 as on December 30, 2020

#### Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and bank balances. Cash and cash equivalents decreased from SAR 79.6 million as of 31 December 2018G to SAR 54.2 million as of 31 December 2019G, mainly due to the increase in Zakat and income tax paid in the amount of SAR 26.3 million in relation to Zakat and income tax for previous years, in addition to the increase in financing activities by SAR 21.9 million, driven by the increase in payments of financing facilities for tawarruq by SAR 101.5 million, offset by additional withdrawals amounting to SAR 83.0 million, in addition to the payment of the main part of the lease obligations amounting to SAR 3.5 million.

Cash and cash equivalents increased to SAR 142.3 million s as of 31 December 2020G, mainly due to investments in finance lease contracts (SAR +96.9 million), and this was also affected by the sale of the Saudi Real Estate Refinance Company in November 2020G with amount  of SAR 50.2 million .

#### Prepaid Expenses and Other Assets

Prepaid expenses and other assets increased from SAR 38.0 million as of 31 December 2018G to SAR 64.3 million as of 31 December 2019G, mainly due to an increase in the debited value-added tax as a result of amounts due from the Ministry of Housing in connection with the support of the Real Estate Development Fund; which is a VAT refund to homeowners for first-time.

Prepaid expenses and other assets increased to SAR 67.8 million as of 31 December 2020G, mainly due to the increase in insurance claims payable as a result of the increase in deaths due to natural causes with the aging of portfolio clients.

#### Advance Payments to Property Owners

Advances to Property Owners Account is a temporary account for checks issued to clients, to clients of continents under title deed transfer. Advance payments made to property owners decreased from SAR 5.9 million as of 31 December 2018G to SAR 2.4 million as of 31 December 2019G as a result of the increase in the number of cleared checks.

Advance payments made to property owners increased to SAR 6.8 million as of 31 December 2020G, due to an increase in the number of checks that have not yet been settled due to the completion of administrative procedures.

### Due from Related Parties

Due from related parties relates to the amounts due from Arab National Bank relating to the off-balance sheet portfolio. Amounts due from related parties decreased from SAR 897 thousand as of 31 December 2018G to SAR 765 thousand as of 31 December 2019G, and continued to decline to SAR 633 thousand on 31 December 2020G in line with the decrease in the off-balance sheet portfolio with Arab National Bank .

### Investment

The investment amounted to SAR 893 thousand during the historical period from 31 December 2018G to 31 December 2020G. It entirely relates to investment in a register company, and its activities record keeping are monitored .

### Investments in Financial Leases

Investments in finance lease contracts increased by SAR 48.1 million from SAR 4.2 billion as of 31 December 2018G to SAR 4.2 billion as of 31 December 2019G as a result of the increase in the creation of new contracts in line with the Company's efforts to expand the balance sheet portfolio.

Investments in financial leasing contracts decreased by SAR 39.3 million to SAR 4.2 billion as of 31 December 2020G, mainly due to the sale of a portfolio of the Saudi Real Estate Refinance Company in November 2020G amounting to SAR 50.2 million.

### Fees For Establishing Deferred Contracts

The deferred contract creation fee relates to the deferred portion of the contract fee that is paid when an application is submitted through the ANB channel. This fee is amortized on a monthly basis over the life of the loan once the loan amount is disbursed.

Fees for establishing deferred contracts decreased from SAR 29.8 million as of 31 December 2018G to SAR 25.8 million as of 31 December 2019G, and continued to decline to SAR 22.0 million as of 31 December 2020G, due to the decrease in the number of new creations during the historical period.

### Other Properties

Other real estate relates to real estate that has been fully reacquired from clients through the courts or under mutual agreements. The Company finances these properties again, after which this account is transferred to investments in finance lease contracts. Other properties increased from SAR 2.8 million on 31 December 2018G to SAR 7.0 million as of 31 December 2019G, and continued to rise to SAR 8.7 million as of 31 December 2020G, as a result of the increase in the number of properties reacquired during the historical period.

### Right-of-Use Assets

Right-of-use assets amounted to SAR 6.3 million as of 31 December 2019G, and decreased to SAR 3.8 million as of 31 December 2020G as a result of the application of IFRS 16, which was implemented starting from 01 January 2019G.

### Property and Equipment

Property and equipment increased from SAR 4.1 million as of 31 December 2018G to SAR 4.8 million as of 31 December 2019G, mainly due to additions of computers at a value of SAR 739 thousand and work in progress at a value of SAR 449 thousand in line with the efforts of the Company to improve and modify its internal information systems.

Property and equipment increased to SAR 5.3 million as of 31 December 2020G, mainly due to additions of computers in the amount of SAR 969 thousand as a result of new guidelines on cyber security protocols. Computer capital expenditures in fiscal year 2020G included laptops and other computer equipment to facilitate the transition to remote work during periods of lockdown due to the COVID-19 pandemic.

### Deferred Tax Assets

Deferred tax assets increased from SAR 4.1 million as of 31 December 2018G to SAR 4.6 million as of 31 December 2019G and continued to rise to SAR 4.8 million on 31 December 2020G in line with the commitment of employees' end of service benefits and the provision for expected credit losses for investments in finance lease contracts and depreciation of property and equipment.

### Intangible Assets

Intangible assets relate to the Company's software and applications, including the enterprise resource planning system and internal underwriting systems. Intangible assets decreased from SAR 3.6 million as of 31 December 2018G to SAR 3.2 million on 31 December 2019G, and continued to decline to SAR 2.5 million as of 31 December 2020G, mainly due to an increase in amortization fees, in addition to the decrease in plugins (add-ons).

### Accounts Payable

Accounts payable mainly relate to amounts owed to the Ministry of Housing, as a result of the Ministry of Housing's initiative to encourage home ownership through ready-made units. The Ministry of Housing purchased a large plot of land and was unable to finalize the title deeds when dividing it into plots of land for clients. Accordingly, the Ministry of Housing requested the Company to refrain from disbursing the amounts due until the title deeds are processed and transferred successfully.

Accounts payable increased from SAR 30.9 million as of 31 December 2018G to SAR 50.6 million as of 31 December 2019G mainly due to additional real estate financed without title deeds.

Accounts payable decreased to SAR 8.1 million as of 31 December 2020G, as a result of the settlement of title deed transfers, which led to the transfer of SAR 40 million to the Ministry of Housing in October 2020G.

### Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities increased from SAR 6.5 million as of 31 December 2018G to SAR 9.1 million as of 31 December 2019G, mainly due to an increase in accumulated insurance fees of SAR 1.4 million, which relates to medical insurance fees that were later settled in the following year.

Accrued expenses and other liabilities increased to SAR 9.3 million due to the increase in employee related expenses, in line with the increase in the number of employees.

### Advance Rent Payments

The lease payments made relate to early settlements made by clients and that were not liquidated by the end of the year. Rental payments decreased from SAR 7.8 million as of 31 December 2018G to SAR 7.5 million as of 31 December 2019G and continued to decline to SAR 4.4 million as of 31 December 2020G, mainly due to the timing differences between receiving and processing the settlement in addition to increasing the operational efficiencies achieved by the Company.

### Lease Obligations

Lease commitments amounted to SAR 5.9 million and SAR 3.8 million as of 31 December 2019G and 31 December 2020G, respectively, as a result of the application of IFRS 16 starting from 01 January 2019G.

### Provision for Zakat and Income Tax

The provision for Zakat and tax decreased from SAR 36.4 million as of 31 December 2018G to SAR 28.0 million as of 31 December 2019G, and continued to decline to SAR 24.6 million as of 31 December 2020G as a result of the decrease in the Zakat provision for previous years (SAR-25.3 million) during the historical period from 2018G to 2020G.

#### Tawarruq Financing Facility

The Tawarruq facility mainly relates to financing facilities from the Arab National Bank. The Company has developed a strategy to take advantage of facilities from other lenders to reduce dependence on ANB. Tawarruq financing facilities have relatively stabilized at SAR 2.8 billion during the period from 31 December 2018G to 31 December 2020G.

#### End of Service Benefit Obligation

End of service benefits are calculated based on an independent actuarial study in accordance with International Accounting Standard 19. The end of service benefits obligation increased from SAR 8.6 million as of 31 December 2018G to SAR 9.4 million as of 31 December 2019G in line with the increase in the number of employees from 127 to 151 Officers.

The end-of-service benefits obligation decreased to SAR 8.4 million as of 31 December 2020G, as a result of settling some obligations of employees whose contract with the Company has been terminated.

#### Equity

Total equity increased from SAR 1.4 billion SAR as of 31 December 2018G to SAR 1.5 billion as of 31 December 2019G in line with the increase in retained earnings (SAR +49.2 million) as a result of the increase in net income.

Total equity increased to SAR 1.6 billion as of 31 December 2020G, as a result of the increase in retained earnings (SAR +76.6 million) in line with the increase in net income.

#### Cash and Cash Equivalents

Table 6-18: Cash and cash equivalents for the Company as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Cash in hand | 18 | 23 | 22 |
| Current accounts with the bank | 79,626 | 54,177 | 142,306 |
| **Total** | **79,643** | **54,200** | **142,328** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Cash and cash equivalents consist of cash in hand and current accounts with the bank.

Cash and cash equivalents decreased from SAR 79.6 million as of 31 December 2018G to SAR 54.2 million as of 31 December 2019G as a result of the decrease in cash generated from financing activities from SAR 59.6 million to SAR 3.4 million due to an increase in Zakat and income tax payments from SAR 6.8 million in 2018G to SAR 33.0 million in 2019G mainly related to Zakat and income tax for previous years in addition to the increase in prepaid expenses and other assets as a result of the increase in the receivable value added tax due to the timing of the settlement of the value added tax balance.

Cash and cash equivalents increased to SAR 142.3 million as of 31 December 2020G. This increase is due to the increase in cash generated from operating activities from SAR 3.4 million in 2019G to SAR 75.0 million in 2020G, as a result of the changes in working capital, which included an increase of investments in finance leasing contracts, which included the sale of a portfolio in the amount of SAR 50.2 million in November 2020G in addition to a decrease in Zakat and income tax for previous years as a result of the settlements made by the Company to the Zakat and Income Authority.

**Prepaid Expenses and Other Assets, Net**

Table 6-19: Prepaid expenses and other assets of the Company as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Insurance claims payable to cover death in finance lease contracts, net | 25,171 | 24,014 | 34,459 |
| Receivable VAT | 8,366 | 22,791 | 12,412 |
| Legal Claims | 1,018 | 1,018 | 8,863 |
| Advance tax | 3,461 | 3,783 | 3,850 |
| Prepaid Finance Facility Fee (GIB) | 1,538 | 863 | 3,511 |
| Due from the Real Estate Development Fund | - | 9,355 | 2,882 |
| Prepaid software maintenance | 844 | 451 | 1,098 |
| Advance Finance Facility Fee (International Finance Corporation) | 1,723 | 1,410 | 1,097 |
| Prepaid insurance | 3,686 | 43 | 1,092 |
| Saudi company registration fees for the registration of financial lease contracts | - | 718 | 419 |
| Employee advances and receivables | 144 | 131 | 133 |
| Prepaid interest expense - IFC | 4,663 | - | - |
| Advance rent | 562 | - | - |
| Other | 43 | 1,181 | 1,169 |
| | 51,219 | 65,757 | 70,984 |
| Provision for expected credit losses from insurance claims due on passive (Ijarah) contracts | (12,201) | - | - |
| Provision for Legal Claim | (1,018) | (1,494) | (3,213) |
| **Total** | **37,999** | **64,263** | **67,771** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Insurance claims payable for death in lease contracts, net of the following:

Table 6-20: Insurance claims due on death cases in the Company's lease contracts as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Insurance claims payable for death in rental contracts | 25,171 | 36,112 | 49,854 |
| Provision for expected credit losses | (12,201) | (12,098) | (15,395) |
| **Insurance claims payable for death in lease contracts, net** | **12,970** | **24,014** | **34,459** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

**Insurance Claims Payable for Death in Finance Lease Contracts**

Insurance claims payable for death in finance lease contracts relate to insurance claims related to deceased customers. The Company closes the loan when the Company is notified of the death case and the investment due in the finance lease is transferred to insurance claims entitlements. When the insurance claim is settled, the Company transfers the title deed of the property to the family of the deceased client.

Insurance claims payable in case of death in finance lease contracts increased from SAR 13.0 million as of 31 December 2018G to SAR 24.0 million as of 31 December 2019G, and continued to rise to SAR 34.5 million as of 31 December 2020G as a result of natural causes through the obsolescence of the portfolio. As a result, some of the Company's clients have become old.

**Receivable Value Added Tax**

Receivable VAT relates to the amount due from the Ministry of Housing in accordance with the Real Estate Development Fund support program to recover the amount of VAT for first-time homeowners. The Company had previously paid and recovered value-added tax from the Ministry of Housing. This has changed after the implementation of real estate transaction tax instead of VAT in October 2020G, where the property is registered directly with the General Authority of Zakat, Tax and Customs and the amount of VAT is waived directly for the homeowner's requests for the first time. The VAT account is amortized when the balances due are received.

The receivable value added tax increased from SAR 8.4 million as of 31 December 2018G to SAR 22.8 million as of 31 December 2019G due to the timing of the VAT balance adjustment.

The value added tax dues decreased to SAR 12.4 million as of 31 December 2020G due to differences in the settlement timing by the Ministry of Housing, in addition to the implementation of the real estate transaction tax in October 2020G.

**Legal Claims**

Legal claims relate to claims under settlement. Legal claims amounted to SAR 1.0 million as of 31 December 2018G and 31 December 2019G. The amount relates to a legal claim that was first filed in 2010G relates to a case in Mecca, and there was no progress in this case.

Legal claims increased to SAR 8.9 million as of 31 December 2020G, due to additional seizure of properties that have been repossessed from clients but are still under legal proceedings. Therefore, no transactions can be conducted regarding this property until the court issues its decision.

**Advance Tax**

The advance tax relates to payments made on a quarterly basis based on the Company's income in the previous year and in accordance with the Income Tax Law for Companies with Foreign Contributions.

The submitted tax increased from SAR 3.5 million as of 31 December 2018G to SAR 3.8 million as of 31 December 2019G in line with the Company's income in the previous year. The submitted tax continued to rise to SAR 3.9 million as of 31 December 2020G due to the increase in income during the historical period.

**Prepaid Finance Facility Fee (Gulf International Bank "GIB")**

The prepaid finance facility fee relates to the unamortised amount of the fee provided in accordance with the agreement with GIB. The fees for prepaid financing facilities decreased from SAR 1.5 million as of 31 December 2018G to SAR 863 thousand as of 31 December 2019G as a result of amortizing the prepaid fees.

The fees for prepaid financing facilities increased to SAR 3.5 million as of 31 December 2020G, due to the renewal of the facilities with the bank for an additional 5 years.

**Due From the Real Estate Development Fund**

The receivable from the Real Estate Development Fund relates to down payments for real estate made by the Company in advance in accordance with the Real Estate Development Fund's initiative to encourage home ownership by subsidizing down payments. Advance payments made on behalf of clients are refunded from the Real Estate Development Fund.

The balance due from the Real Estate Development Fund amounted to SAR 9.4 million as of 31 December 2019G as a result of the increase in loans supported by the Real Estate Development Fund during the period. The receivable from the Real Estate Development Fund decreased to SAR 2.9 million as of 31 December 2020G, as a result of the settlement of some balances by the Real Estate Development Fund, in addition to stopping the support program. It is worth noting that the Real Estate Development Fund made advance payments of up to SAR 140 thousand to each client.

**Prepaid Software Maintenance**

Prepaid software maintenance costs relate to annual maintenance contracts with system vendors. Maintenance for prepaid programs decreased from SAR 844 thousand as of 31 December 2018G to SAR 451 as of 31 December 2019G as a result of completing two maintenance contracts during the same period.

Maintenance for prepaid programs increased to SAR 1.1 million as of 31 December 2020G, as a result of the Company signing new maintenance contracts in line with the continuous modifications in the system.

**Advance Finance Facility Fee (International Finance Corporation)**

The prepaid finance facility fee relates to the unamortised balance of the fee provided in accordance with the agreement with the International Finance Corporation.

The fees for prepaid financing facilities from the International Finance Corporation decreased from SAR 1.7 million as of 31 December 2018G to SAR 1.4 million as of 31 December 2019G, and continued to decline to SAR 1.1 million as of 31 December 2020G as a result of amortizing the prepaid fees.

**Prepaid Insurance**

The Company pays the premium in advance on a monthly basis based on the projected portfolio for the upcoming month. This is due to the relatively high frequency of payments, prepaid insurance is largely dependent on the timing of payment.

The prepaid insurance decreased from SAR 3.7 million as of 31 December 2018G to SAR 43 thousand as of 31 December 2019G, then increased to SAR 1.1 million as of 31 December 2020G as a result of the timing of payment of the insurance premium.

**Saudi Company Registration Fees for the Registration of Finance Lease Contracts**

The registration fees of the Saudi Company for the registration of finance lease contracts decreased from SAR 718 thousand as of 31 December 2019G to SAR 419 thousand as of 31 December 2020G as a result of the decrease in the balance due at the end of the fiscal year 2020G.

**Employee Advances and Payables**

Staff advances and payables have relatively stabilized at SAR 135 thousand during the historical period.

**Prepaid Interest Expense - IFC**

Prepaid interest expense amounted to SAR 4.7 million as of 31 December 2018G as a result of making an advance payment for the interest portion of the amortized facility.

**Advance Rent**

The prepaid rent amounted to SAR 562 thousand in the 2018G fiscal year as a result of the application of IFRS 16.

**Other**

Other advances related to prepaid interest, processing and evaluation fees.

Other advance payments increased from SAR 48 thousand as of 31 December 2018G to SAR 1.2 million as of 31 December 2019G as a result of the increase in payments for processing and evaluation fees and other expenses in line with the increase in loan creation.

Other advance payments remained relatively stable at SAR 1.2 million as of 31 December 2020G.

**Provision for Expected Credit Losses from Insurance Claims Due on Inactive (Ijarah) Contracts**

The Company recognizes a provision for expected credit losses on investments in finance leases and insurance claims due on death in passive finance leases. The provision for expected credit losses from insurance claims due on inactive (Ijarah) contracts amounted to SAR 12.2 million in the fiscal year 2018G.

**Legal Claim Provision**

The provision for a legal claim relates to the provision for ongoing legal cases. The legal claim provision amounted to SAR 1.0 million as of 31 December 2018G related to the legal case in Makkah, and increased to SAR 1.5 million as of 31 December 2019G due to an additional legal case. The provision for legal claims increased to SAR 3.2 million as of 31 December 2020G, as a result of a legal case against the previous property owner related to the discovery by the new owner of damages to the property after its conversion.

**Due from Related Parties**

In accordance with IAS 24 "**Related Party Disclosures**", parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party when making financial and operating decisions. When evaluating the relationship of each potential related party, attention is drawn to the substance of the relationship and not just the legal form. Related parties may enter into transactions in which unrelated parties do not. Also, transactions between related parties may not take place on the same terms and conditions and amounts as between unrelated parties.

The Company's shareholders and all of its sister companies are related parties to the Company. In the normal course of business, the Company deals with related parties on the basis of prices and terms approved by the Company's management and on an agreed basis with these related parties:

Table 6-21: Related parties to the Company as of December 31, 2020:

| Name | Relationship |
|---|---|
| Arab National Bank | Shareholder |
| Dar Al Arkan Real Estate Development Company | Shareholder |
| International Finance Corporation | Shareholder |
| Kingdom of Installment Trading Company | Shareholder |
| Tharawat Asset Real Estate Company | Sister company |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

The following are the transactions that took place with related parties during the year:

Table 6-22: Transactions that took place with related parties to the Company as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Tawarruq Financing charges - Arab National Bank | 109,899 | 103,241 | 62,159 |
| Purchased housing unit (Dar Al-Arkan Company) | - | 20,039 | 16,836 |
| Service fee, net | 10,156 | 8,783 | 7,298 |
| Tawarruq Financing charges - International Finance Corporation | 8,794 | 10,059 | 6,317 |
| Fees for establishment of deferred contracts | 1,119 | 109 | 212 |
| Rent charged by a sister company | 1,882 | 2,180 | 2,180 |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

The details of related party balances included in the statement of financial position as of 31 December are as follows:

Table 6-23: Details of related party balances included in the statement of financial position as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| A loan from a shareholder - Arab National Bank | 2,216,982 | 1,900,010 | 1,832,299 |
| A loan from a shareholder - International Finance Corporation | 187,500 | 172,186 | 140,785 |
| Fees for establishing deferred contracts | 29,810 | 25,792 | 22,028 |
| Prepaid Finance Facility Fee (International Finance Corporation) | 1,723 | 1,410 | 1,097 |
| Due from a related party related to service fees (Arab National Bank) | 897 | 765 | 633 |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

**Senior Management Staff Renumeration**

Senior management personnel are the persons who have the authority and are responsible for planning, directing and monitoring the activities of the Company. Senior management personnel consist of members of the Board of Directors (including executive and non-executive members of the Board of Directors) and selected key personnel who meet the criteria set out above.

Close family members of senior management personnel are those family members who are expected to influence or be subject to the influence of senior management personnel when they interact with the Company. Close family members may include domestic partners, children of senior management, children of the local partner of senior management, parents, grandparents, brothers, sisters, grandchildren and other dependents of senior management and the local partner of senior management.

The details of the remuneration of the Company's senior management employees are as follows:

Table 6-24: Remuneration of the Company's senior management employees as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Payroll | 3,215 | 2,109 | 2,546 |
| Indemnity | 273 | 176 | 581 |
| Other allowances | 960 | 800 | 1,733 |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

### Investments in Finance Leases, Net

Table 6-25: Investments in the Company's finance lease contracts as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Minimum rental payments | | | |
| Active leases | 6,515,281 | 6,627,878 | 6,486,242 |
| Inactive lease contracts | 317,694 | 292,443 | 180,698 |
| **Total investments in finance leases** | **6,832,975** | **6,920,320** | **6,666,941** |
| Deduct: unearned financing income | (2,575,750) | (2,603,678) | (2,385,372) |
| **Investments in finance leases before impairment** | **4,257,225** | **4,316,642** | **4,281,569** |
| Deduct: provision for expected credit losses | (66,900) | (78,226) | (82,430) |
| **Net investments in finance leases** | **4,190,325** | **4,238,416** | **(4,199,139)** |
| Deduct: Current portion | (262,693) | (272,352) | (283,570) |
| Deduct: finance lease contract receivables | (40,099) | (42,143) | (42,285) |
| Non-current porttion | 3,887,533 | 3,923,921 | 3,873,283 |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

The movement in the provision for expected credit losses for investments as of 31 December is as follows:

Table 6-26: Statement of the movement in the provision for expected credit losses for the Company as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Balance at the beginning of the year | 35,711 | 66,900 | 78,226 |
| Charge for the year, net | 31,189 | 11,327 | 4,204 |
| **Balance at the end of the year** | **66,900** | **78,226** | **82,430** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

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

Table 6-27: The credit quality of investments in Finance Lease Contracts as of 31 December 2020G:

| SAR'000 | 12-month Expected Credit Loss | Lifetime ECL that is not credit impaired | Lifetime ECL that is credit-impaired | Total |
|---|---|---|---|---|
| Gross book value | 3,623,424 | 382,231 | 275,913 | 4,281,569 |
| Provision for expected credit losses | (2,155) | (13,008) | (67,267) | (82,430) |
| **Net book value** | **3,621,269** | **369,233** | **208,646** | **4,199,139** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Table 6-28: The credit quality of investments in financial lease contracts as on December 31, 2019:

| SAR'000 | 12-month Expected Credit Loss | Lifetime ECL that is not credit impaired | Lifetime ECL that is credit-impaired | Total |
|---|---|---|---|---|
| Gross book value | 3,680,819 | 438,007 | 197,816 | 4,316,642 |
| Provision for expected credit losses | (987) | (28,117) | (49,119) | (78,226) |
| **Net book value** | **3,679,823** | **409,889** | **148,697** | **4,328,416** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Table 6-29: The credit quality of investments in financial lease contracts as on December 31, 2018:

| SAR'000 | 12-month Expected Credit Loss | Lifetime ECL that is not credit impaired | Lifetime ECL that is credit-impaired | Total |
|---|---|---|---|---|
| Gross book value | 3,520,022 | 469,194 | 268,009 | 4,257,225 |
| Provision for expected credit losses | (1,573) | (10,169) | (55,157) | (66,900) |
| **Net book value** | **3,518,449** | **459,025** | **212,852** | **4,190,325** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Here is the due date for the lease payments:

Table 6-30: The due date of rent payments as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Within one year | 302,792 | 314,495 | 325,855 |
| Second Year | 270,292 | 280,561 | 292,272 |

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Third Year | 277,120 | 288,468 | 296,323 |
| Fourth year | 282,973 | 292,214 | 293,994 |
| Fifth year and beyond | 3,124,048 | 3,140,905 | 3,073,022 |
| **Total** | **4,257,225** | **4,316,642** | **4,281,569** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

The net investment in finance lease contracts increased from SAR 4.2 billion as of 31 December 2018G to SAR 4.3 billion as of 31 December 2019G mainly due to the Company's increased efforts to expand its portfolio, which resulted in the creation of new contracts worth SAR 451.4 million in fiscal year 2019G.

The net investment in finance leases has relatively stabilized at SAR 4.3 billion as of 31 December 2020G, due to the continuous increase in the Company's efforts to grow its portfolio despite the Covid-19 pandemic, which led to the creation of new contracts worth SAR 464.7 million in fiscal year 2020G.

Fees for establishing deferred contracts

Table 6-31: Fees for establishing deferred contracts as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Fees for establishing deferred contracts | 29,810 | 25,792 | 22,028 |
| Deduct: Current Portion | (3,137) | (2,908) | (2,654) |
| Non-current portion | 26,673 | 22,883 | 19,373 |
| The following is a statement of the movement in fees for establishing deferred contracts: | | | |
| At the beginning of the year | 32,437 | 29,810 | 25,792 |
| Contract creation fees incurred and paid for the year | 1,119 | 109 | 212 |
| Fees for establishing contracts charged for the year | (3,746) | (4,128) | (3,976) |
| **At the end of the year** | **29,810** | **25,792** | **22,028** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

The deferred contract creation fee relates to the 2% commission fee payable when establishing loan contracts through the ANB channel. The deferred construction fee is subsequently amortized over the life of the loan. Contract creation fees decreased from SAR 29.8 million as of 31 December 2018G to SAR 25.8 million as of 31 December 2019G, and to SAR 22.0 million as of 31 December 2020G as a result of amortizing the balance in line with the obsolescence of the Arab National Bank portfolio. This is also due to the Company's efforts to shift away from the ANB channel to reduce dependence on its major shareholder.

Loans arising from the Saudi Home Loans Company through its own channels amounted to 99% of the total portfolio during the fiscal year 2020G. The Company is witnessing a change in its portfolio to reduce the loans obtained through the Arab National Bank (which are considered old loans), as the Company has developed its operations to become more independent from ANB and the balance is expected to be amortized up to 0 in the future.

### Other Properties

Table 6-32: Other properties of the Company as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| At the beginning of the year | 1,080 | 2,830 | 6,963 |
| Repossession during the year | 1,750 | 4,134 | 11,172 |
| Sold during the year | - | - | (4,622) |
| Impairment losses | - | - | (4,857) |
| **At the end of the year** | **2,830** | **6,963** | **8,657** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Other real estate relates to property that has been reacquired from clients through legal process or under mutual agreements between the client and the Company. The Company intends to resell these properties in order to convert them into net investment in finance lease contracts on its balance. These properties are revalued on an annual basis to estimate the market value before the property is financed.

Other properties increased from SAR 2.8 million as of 31 December 2018G to SAR 7.0 million as of 31 December 2019G. This is due to returning 5 properties during the year with a value of SAR 4.1 million, and not financing any other properties during the year.

Other real estate increased to SAR 8.7 million as of 31 December 2020G, as a result of returning 7 properties worth SAR 11.1 million during the year. This was offset by the sale of real estate during the year amounting to SAR 4.6 million and transferred into net investments in finance lease contracts. The impairment loss amounted to SAR 4.9 million as of 31 December 2020G, and was related to a decrease in the market value of the reacquired properties. The Company is expected to recover the market value of these properties in the future.

### Right of-Use Assets

Table 6-33: The right of use of company assets as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | Riyadh | Dammam | Jaddah | Total |
|---|---|---|---|---|
| Right-of-use assets, January 1, 2019 | 5,125 | - | 2,165 | 7,290 |
| Additions during the year | 541 | 1,024 | - | 1,565 |
| Accumulated Depreciation | (1,829) | (285) | (433) | (2,546) |
| **Right-of-use assets, December 31, 2019** | **3,838** | **740** | **1,732** | **6,309** |
| Additions during the year | 228 | - | - | 228 |

| SAR'000 | Riyadh | Dammam | Jaddah | Total |
|---|---|---|---|---|
| Accumulated depreciation | (1,957) | (341) | (433) | (2,731) |
| **Right-of-use assets, December 31, 2020** | **2,108** | **398** | **1,299** | **3,806** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

The Company entered into 3 lease contracts with different lessors that started since the fiscal year 2019G, and mainly related to the main office in Riyadh and two branches in Dammam and Jeddah. Right-of-use assets amounted to SAR 6.3 million and SAR 3.8 million as of 31 December 2019G and 2020, respectively, as a result of the application of IFRS 16 starting from 01 January 2019G.

**Property And Equipment**

Table 6-34: The Company's property and equipment as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | Leasehold Improvements | Cars | office Furniture, fixtures and equipment | Computers | Works Underway | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Balance as on January 1, 2018 | 5,344 | 495 | 5,767 | 7,836 | 156 | 19,598 |
| Additions | 25 | - | 9 | 273 | 247 | 555 |
| **Balance as on December 31, 2018** | **5,369** | **495** | **5,777** | **8,109** | **403** | **20,153** |
| Additions | 232 | - | 258 | 739 | 449 | 1,677 |
| **Balance as on December 31, 2019** | **5,602** | **495** | **6,034** | **8,848** | **851** | **21,831** |
| Additions | 102 | - | 110 | 969 | 370 | 1,551 |
| Disposals | - | (300) | - | (360) | - | (660) |
| **Balance as on December 31, 2020** | **5,703** | **195** | **6,144** | **9** | **1,221** | **22,721** |
| Accumulated Depreciation | | | | | | |
| Balance as on January 1, 2018 | 3,275 | 267 | 4,677 | 6,780 | - | 14,999 |
| Expense for the year | 333 | 106 | 216 | 433 | - | 1,089 |
| **Balance as on December 31, 2018** | **3,608** | **373** | **4,893** | **7,214** | **-** | **16,088** |
| Expense for the year | 320 | 85 | 194 | 377 | - | 975 |
| **Balance as on December 31, 2019** | **3,928** | **458** | **5,087** | **7,590** | **-** | **17,063** |
| Expense for the year | 333 | 37 | 226 | 450 | - | 1,046 |

| SAR'000 | Leasehold Improvements | Cars | office Furniture, fixtures and equipment | Computers | Works Underway | Total |
|---|---|---|---|---|---|---|
| Disposals | - | (300) | - | (360) | - | (660) |
| **Balance as on December 31, 2020** | **4,261** | **195** | **5,313** | **7,680** | **-** | **17,449** |
| Net book value | | | | | | |
| **As on December 31, 2018** | **1,761** | **122** | **884** | **895** | **403** | **4,065** |
| **As on December 31, 2019** | **1,674** | **37** | **947** | **1,258** | **851** | **4,768** |
| **As on December 31, 2020** | **1,442** | **-** | **832** | **1,777** | **1,221** | **5,272** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

#### Rental Property Improvements

Improvements to leasehold properties relate to civil works and contract creations executed on leased properties. The net book value of improvements to rental properties decreased from SAR 1.8 million as of 31 December 2018G to SAR 1.7 million as of 31 December 2019G, and this decrease is mainly due to the increase in depreciation. Improvements on leased properties decreased to SAR 1.4 million as of 31 December 2020G. This decrease is mainly due to an increase in depreciation as well as a decrease in additions during the same period.

#### Vehicles

Vehicles mainly relate to vehicles owned by the Company and vehicles used by the executive management of the Company. The net book value of cars decreased from SAR 122 thousand as of 31 December 2018G to SAR 37 thousand. This decrease is mainly due to the fixed Depreciation of cars and the absence of car additions during 2019G. Vehicles continued to decline to 0 as of 31 December 2020G, as a result of Disposals in the amount of SAR 300 thousand related to the sale of one of the Company's vehicles to the former CEO at the book value.

#### Furniture, Fixtures and Office Equipment

Office furniture, fixtures and equipment mainly relate to desks, chairs, tables, cabinets, sofas and other office equipment. The net book value of office furniture, fixtures and equipment increased from SAR 884 thousand as of 31 December 2018G to SAR 947 thousand as of 31 December 2019G as a result of purchasing new office furniture and equipment in line with the increase in the number of employees. The net book value decreased to SAR 832 thousand as of 31 December 2020G, mainly due to the impairment of additions in the same period.

#### Computers

Computers mainly consist of computers, laptop computers, computer servers, and computer systems. The net book value of the computer increased from SAR 895 thousand as of 31 December 2018G to SAR 1.3 million as of 31 December 2019G mainly due to the Company's growth plan as well as transfers from work in progress. Computers increased to SAR 1.8 million as of 31 December 2020G in line with the requirements of remote work as a result of the current Covid-19 pandemic, in addition to the additional requirements from the Central Bank of Saudi Arabia to make improvements in the field of information technology. This was offset by Disposals of SAR 360 thousand related to sales of old computer equipment.

### Work-in-Progress

Work-in-progress represents the capital expenditure incurred to purchase computers and systems. The net book value of work-in-progress increased from SAR 403 thousand as of 31 December 2018G to SAR 851 thousand as of 31 December 2019G as a result of updates to the enterprise resource planning system and the contract creation system. The Company has made these additions to accommodate the changing business environment, as well as improve operational and monitoring efficiencies. Work in progress increased to SAR 1.2 million as of 31 December 2020G, in line with continuous system updates to comply with the changing business environment, in addition to improving operational and monitoring efficiencies.

### Intangible Assets

Table 6-35: Intangible assets of the Company as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | Fiscal year 2018 (Audited) | Fiscal year 2019 (Audited) | Fiscal year 2020 (Audited) |
|---|---|---|---|
| Cost | | | |
| Balance at the beginning of the year | 8,351 | 8,973 | 10,374 |
| Additions | 622 | 1,401 | 766 |
| Balance at the end of the year | 8,973 | 10,374 | 11,140 |
| Accumulated amortization | | | |
| Balance at the beginning of the year | (3,721) | (5,411) | (7,217) |
| expense for the year | (1,690) | (1,806) | (1,424) |
| Balance at the end of the year | (5,411) | (7,217) | (8,640) |
| **Net book value** | **3,562** | **3,157** | **2,500** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Intangible assets mainly relate to software and computer applications. The Company continues to update and modify the system in line with the constant change and emerging technologies. The net book value decreased from SAR 3.6 million as of 31 December 2018G to SAR 3.2 million as of 31 December 2019G mainly due to amortization costs. This was offset by additions of SAR 1.4 million related to improvements and modifications to the ERP system to meet business requirements during constant change. Intangible assets decreased to SAR 2.5 million as of 31 December 2020G, mainly due to amortization costs.

### Accrued Costs and Other Liabilities

Table 6-36: Undue costs and other liabilities of the Company as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | Fiscal year 2018 (Audited) | Fiscal year 2019 (Audited) | Fiscal year 2020 (Audited) |
|---|---|---|---|
| Staff related expenses | 5,357 | 5,570 | 7,193 |
| Right to Service Obligations | - | - | 775 |
| Legal and advisory fees payable | 296 | 370 | 549 |

| SAR'000 | Fiscal year 2018 (Audited) | Fiscal year 2019 (Audited) | Fiscal year 2020 (Audited) |
|---|---|---|---|
| Provision for maintenance of financial lease contracts | 404 | 425 | 425 |
| Brokerage fee payable | 34 | 17 | 58 |
| Insurance fees payable | - | 1,421 | - |
| Other | 416 | 1,293 | 327 |
| **Total** | **6,507** | **9,096** | **9,326** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

**Staff Related Expenses**

Employee related expenses consist of employee entitlements such as basic salaries, vacation entitlements and other employee related benefits. Expenses related to employees increased from SAR 5.4 million as of 31 December 2018G to SAR 5.6 million as of 31 December 2019G in line with the increase in the number of employees (+24 employees). Expenses related to employees continued to rise to SAR 7.2 million as of 31 December 2020G, in line with another increase in the number of employees (+13 employees), in addition to the increase in vacation allowances due as a result of travel, health and safety restrictions in light of the Covid-19 pandemic.

**Right to Service Obligations**

The right to service obligations relate to the net effect of the expected future discounted cash flow from servicing SRC's off-balance sheet portfolio, in addition to the estimated future cost of the service. The Company made the calculation on a conservative basis as it is the Company's first portfolio sale in exchange for service rights, which was made in November 2020G. The obligations of the right of service amounted to SAR 775 thousand as of 31 December 2020G, as the Company made a reservation in estimating the cost assumptions. Accordingly, the Company reviewed the cost of service assumptions in the first quarter of the fiscal year 2021G, and the right to service obligations were adjusted to zero.

**Legal and Advisory Fees Payable**

Legal and advisory fees payable relate to bills payable from external consulting services such as legal and legal services, cyber security, audit fees and others.

The legal and advisory fees due increased from SAR 296 thousand as of 31 December 2018G to SAR 370 thousand as of 31 December 2019G, as a result of the increase in the Company's operational requirements, which included cyber security initiatives to comply with the new guidelines issued by the Central Bank of Saudi Arabia. The legal and advisory fees due increased to SAR 549 thousand as of 31 December 2020G, mainly due to additional services related to information technology initiatives and the amendment of the ERP system.

**Provision For Maintenance of Finance Lease Contracts**

The finance lease maintenance provision relates to any customer claim related to property damage or construction defects. This provision relates to old contracts as the new contracts assign liability to the customer for any significant property damage. The provision for maintenance of finance lease contracts remained relatively stable during the historical period, as it increased slightly from SAR 404 thousand as of 31 December 2018G to SAR 425 thousand as of 31 December 2019G and 31 December 2020G. This provision relates mainly to the actual claims raised, and not on the basis of the monthly accrual. The Company expects this provision to be fully amortized in line with the obsolescence of the portfolio.

### Brokerage Fee Payable

The brokerage fees payable to ANB relating to minor additions to ANB's off-balance sheet portfolio during the historical period. The brokerage fees due decreased from SAR 34 thousand as of 31 December 2018G to SAR 17 thousand as of 31 December 2019G and then increased to SAR 58 thousand on 31 December 2020G, in line with the number of loans obtained through the Arab National Bank. In addition to the timing of the settlement with the Arab National Bank.

### Insurance Fees Payable

The insurance fee payable relates to the premium due relating to Credit Life Insurance (Medgulf Insurance). The insurance fees payable amounted to SAR 1.4 million as of 31 December 2019G as a result of the timing of maturity, as the bill was settled in January 2020G.

### Other

Other costs relate mainly to marketing expenses accrued, appraisal fees payable, accrued murabaha and other banking fees. Other costs increased from SAR 416 thousand as of 31 December 2018G to SAR 1.3 million as of 31 December 2019G mainly due to the increase in the accumulated Murabaha and other banking fees, coupled with the increase in the valuation fees payable.

Other costs decreased to SAR 327 thousand as of 31 December 2020G, mainly due to the decrease in accumulated marketing expenses in line with the Company's decision to reduce marketing expenses due to the Covid-19 pandemic.

### Lease Obligations

Table 6-37: Lease Contract Obligations for the Company as of 31 December 2018G, 2019G and 2020G:

| SAR'000 | Riyadh | Dammam | Jaddah | Total |
|---|---|---|---|---|
| **Undiscounted cash flow under lease terms** | **6,242** | **1,116** | **2,500** | **9,858** |
| Lease Contract Obligations, January 1, 2019 | 5,125 | - | 2,165 | 7,290 |
| Additions during the year | 541 | 1,024 | - | 1,565 |
| Paid from lease obligations | (2,081) | (372) | (1,000) | (3,453) |
| Amortizing the discount | 283 | 47 | 197 | 427 |
| **Lease Contract Obligations, December 31, 2019** | **3,869** | **700** | **1,362** | **5,930** |
| **Undiscounted cash flow under lease terms** | **6,540** | **1,116** | **2,500** | **10,156** |
| Lease Contract Obligations, January 1, 2020 | 3,869 | 700 | 1,362 | 5,930 |
| Additions during the year | 228 | - | - | 228 |
| Paid from lease obligations | (2,180) | (372) | - | (2,552) |

| SAR'000 | Riyadh | Dammam | Jaddah | Total |
|---|---|---|---|---|
| Amortizing the discount | 205 | 31 | - | 236 |
| Lease Contract Obligations, December 31, 2020 | 2,122 | 358 | 1,362 | 3,842 |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

The Company entered into 3 lease contracts with different lessors, starting from the fiscal year 2019G, mainly related to the main office in Riyadh and two branches in Dammam and Jeddah. Lease commitments amounted to SAR 5.9 million and SAR 3.8 million as of 31 December 2019G and 2020G, respectively, as a result of applying IFRS 16 starting from 01 January 2019G. The present value of the leases has been calculated using an incremental borrowing rate of 5% over the lease term. The lease liability is amortized on a straight line basis over the lease term.

**Provision for Zakat and Income Tax**

Table 6-38: Zakat and income tax provision for the year ended 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Balance at the beginning of the year | 6,656 | 36,414 | 27,978 |
| Zakat provision for the current year | 5,987 | 6,946 | 7,970 |
| Zakat provision for previous years | 25,367 | 12,832 | - |
| Income tax provision for the current year | 5,060 | 4,781 | 4,765 |
| Income Tax Adjustments | 94 | - | - |
| Paid during the year | (6,750) | (32,995) | (16,068) |
| **Balance at the end of the year** | **36,414** | **27,978** | **24,645** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

**Provision for Zakat and Income Tax**

The movements in the Company's provision for Zakat and income tax are mainly due to the settlement agreement with the General Authority for Zakat, Tax and Customs to settle the existing Zakat-related assessments of previous years. The Company has accepted settlement agreements with the General Authority for Zakat, Tax and Customs to settle existing Zakat related assessments for previous years. The Company accepted a settlement agreement in February 2019G to reconcile the outstanding assessment balance related to Zakat for the fiscal years 2014G to 2017G in addition to the Zakat payment for fiscal year 2018G. The Company agreed to pay an advance payment of SAR 5.1 million in March 2019G, and the remaining balance is to be paid in 5 equal installments due in December of each year starting in 2019G. The remaining balance for this settlement as of 31 December 2020G will be SAR 12.2 million. In addition, the Company accepted another settlement in June 2019G to settle all due assessments for the fiscal years from 2008G to 2013G, which amounted to SAR 12.8 million and were paid to the General Authority of Zakat, Tax and Customs. The provision for Zakat and income tax amounted to SAR 24.6 million as of 31 December 2020G. This mainly included Zakat expense calculated on the basis of Zakat rules for corporate finance, tax adjustments related to non-deductible items, and Zakat installments for settlements with the General Authority of Zakat, Tax and Customs related to the fiscal years 2014G - 2017G.

### Tawarruq Financing Facility

Table 6-39: Tawarruq financing facilities for the year ending on 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Current Portion of the facility | 634,678 | 412,615 | 1,091,740 |
| Non-current portion of the facility | 2,173,082 | 2,372,499 | 1,714,657 |
| Total excluding financing expenses | 2,816,760 | 2,794,114 | 2,809,397 |
| Tawarruq financing fees payable | 7,478 | 7,809 | 13,487 |
| **Total with financing expenses** | **2,824,238** | **2,801,923** | **2,819,884** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Table 6-40: The Outstanding Balance of Tawarruq Financing Facility for the Year Ended on December 31, 2018, 2019 and 2020:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Arab National Bank | 2,216,682 | 1,900,010 | 1,832,300 |
| Gulf International Bank | 419,757 | 401,395 | 392,920 |
| International Finance Corporation | 187,500 | 172,186 | 140,785 |
| National Commercial Bank | - | 328,331 | 377,882 |
| Saudi Real Estate Refinance Company | - | - | 75,998 |
| **Total** | **2,824,238** | **2,801,923** | **2,819,884** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

The Company's financing facilities mainly relate to the Arab National Bank, but after the Saudi Central Bank issued a new directive clarifying a maximum of 5% of the capital for financing from any one loan provider. Since the Arab National Bank has relatively large facilities in addition to large receivables, it turned the Company's financing strategy towards other lenders. The Company sought to diversify its financing facilities and reduce dependence on the Arab National Bank, which is also the main shareholder. It is important to note that previously, the Company only had facilities with the Arab National Bank.

The balance of the Tawarruq financing facilities decreased by SAR 22.9 million from SAR 2.8 billion as of 31 December 2018G to SAR 2.8 billion as of 31 December 2019G as a result of the increase in the repayment of the financing facilities during the year. This was offset by additions to Tawarruq financing facilities in line with the creations of new contracts.

The balance of the Tawarruq financing facilities increased by SAR 18.0 million to reach SAR 2.8 billion as of 31 December 2020G as a result of a decrease in repayment in facilities in addition to a decrease in additions to the Tawarruq financing facilities during the year.

Table 6-41: Details of the facilities and outstanding balances for the year ended 31 December 2018G, 2019G and 2020G:

| Due date | Party | Facility amount | Outstanding balance | Current portion | Non-current portion | The most important Securities, obligations, and financial Covenants |
|---|---|---|---|---|---|---|
| June 2021G | Arab National Bank | 500,000 | 228,204 | 228,204 | - | 1. The outstanding amount of the receivables collected for home financing, which comprise the pooled guarantee, shall cover a minimum of 105% of the outstanding balance of the customer's obligations towards the bank at any time.<br>2. Transferring the monthly salary of the beneficiaries of the financing provided by the Company.<br>3. The property must be utilized and used by the property owner<br>4. The property submitted to the bank as part of the security must be transferable directly without restrictions in the name of Al-Manzil Al-Mubarak Real Estate Investments Company |
| March 2022G | Arab National Bank | 500,000 | 41,384 | 13,645 | 27,739 | |
| June 2022G | Arab National Bank | 650,000 | 418,344 | 28,951 | 389,393 | |
| October 2023G | Arab National Bank | 500,000 | 368,525 | 16,839 | 351,685 | |
| October 2023G | Arab National Bank | 150,000 | 109,887 | 5,021 | 104,866 | |
| August 2020G | Arab National Bank | 206,697 | 165,358 | 165,358 | - | |
| January 2021G | Arab National Bank | 350,000 | 299,185 | 299,185 | - | |
| July 2023G | Arab National Bank | 400,000 | 201,412 | 16,393 | 185,019 | |
| **Total Arab National Bank** | | **3,256,697** | **1,832,299** | **773,596** | **1,058,703** | |
| January 2021G | Gulf International Bank | 300,000 | 172,888 | 172,888 | - | 1. The ratio between the total liabilities and the total net equity of shareholders shall not exceed 1.0: 4.0<br>2. The ratio between total current assets and total current liabilities shall not be less than 1.0: 1.0<br>3. The net material rights of the shareholders shall not be less than 800,000,000 (only eight hundred million Saudi riyals only).<br>4. The annual distributed profits should not exceed the equivalent of (70%) of the net income generated for that year<br>5. The financing coverage ratio to the pledged assets shall not be less than (80%) for current contracts and the new contracts, and the financing coverage ratio to the pledged assets shall not be less than (70%) or stipulated by the Saudi Arabian Central Bank, whichever is greater. |
| July 2023G | Gulf International Bank | 150,000 | 138,009 | 6,009 | 132,000 | |
| June 2025G | Gulf International Bank | 415,000 | 82,023 | 9,134 | 72,889 | |
| **Total Gulf International Bank** | | **865,000** | **392,920** | **188,031** | **204,889** | |

| Due date | Party | Facility amount | Outstanding balance | Current portion | Non-current portion | The most important Securities, obligations, and financial Covenants |
|---|---|---|---|---|---|---|
| September 2034G | National Commercial Bank | 282,075 | 264,572 | 14,231 | 250,342 | 1. The coverage of receivables shall not be less than 117% of the total financing amount<br>2. The financial leverage shall not exceed 4:1<br>3. The dividend distribution shall not exceed 50% of the net profits<br>4. Submit audited financial statements within 90 days of a new year<br>5. Submit a quarterly report on the performance of receivables and share it with the second party<br>6. Retaining 5% as a reserve balance from the process of using to the extent of facilitation<br>7. A reliable mortgage of real estate instruments according to the attached document, as well as a reliable mortgage of the assets of the receivables that were assigned to the National Commercial Bank. |
| November 2034G | National Commercial Bank | 50,603 | 48,169 | 2,626 | 45,543 | |
| January 2035G | National Commercial Bank | 67,322 | 65,141 | 3,709 | 61,431 | |
| **Total National Commercial Bank** | | **400,000** | **377,882** | **20,566** | **357,316** | |
| June 2021G | Saudi Real Estate Refinance Company | 100,000 | 75,998 | 75,998 | - | 1. The customer undertakes to ensure that his financial position will remain from the date of this agreement as long as there is any amount outstanding under any of the usage documents or any obligation in force |

| Due date | Party | Facility amount | Outstanding balance | Current portion | Non-current portion | The most important Securities, obligations, and financial Covenants |
|---|---|---|---|---|---|---|
| June 2025G | International Finance Corporation | 187,500 | 140,785 | 47,035 | 93,750 | 1. Equity to assets ratio of not less than 25%<br>2. Exposure ratio to an economic group not more than 15%<br>3. Large total exposure of no more than 400%<br>4. A related party exposure rate of no more than 15%<br>5. Open credit exposure not more than 25%<br>6. Total foreign exchange risk ratio is not more than 10%<br>7. Foreign exchange risk ratio of a single currency does not exceed 10%<br>8. A profit rate risk ratio of not less than -10% and not more than 10%<br>9. Total profit rate risk ratio not less than -20% and not more than 20%<br>10. Foreign exchange maturity gap ratio of not less than -150%<br>11. Combined negative maturity gap of not less than -300%<br>12. Percentage of fixed assets in addition to equity investments of not more than 35%<br>13. The percentage of non-performing lease receivables is less than or equal to 5% of the total lease receivables |
| **Total** | | **4,809,197** | **2,819,884** | **1,105,227** | **1,714,657** | |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

**Indemnity**

Table 6-42: Amounts Recognized in the Statement of Financial Position and Movements in Obligations for the Year Ended on 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Defined benefit obligations at the beginning of the year | 7,728 | 8,590 | 9,377 |
| Current service cost | 1,379 | 1,466 | 1,595 |
| Interest cost on defined benefit obligations | 259 | 413 | 292 |
| Benefits paid/accrued to members whose membership are terminated during the year | (369) | (1,203) | (2,031) |

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Actuarial (gains) / losses from the obligation | (407) | 111 | (861) |
| **Defined benefit obligations at the end of the year** | **8,590** | **9,377** | **8,372** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

The defined benefit obligations at the end of the year increased from SAR 8.6 million as of 31 December 2018G to SAR 9.4 million as of 31 December 2019G and decreased to SAR 8.4 million as a result of the termination of several employee contracts.

Table 6-43: Amounts charged to the income statement for the year ended 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Current service cost | 1,379 | 1,466 | 1,595 |
| Interest cost on defined benefit obligations | 259 | 413 | 292 |
| Cost recorded in the income statement | 1,638 | 1,879 | 1,887 |
| Actuarial (gains) / losses on the obligation recognized in other comprehensive income | (407) | 111 | (861) |
| **Total defined benefit costs during the year** | **1,231** | **1,990** | **1,026** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Table 6-44: Re-measurement recognized in other comprehensive income for the year ended 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Loss from change in financial assumptions | 637 | 328 | 142 |
| Earnings due to change in demographic assumptions | - | - | (496) |
| Loss/(profit) from change in experience assumptions | 31 | (216) | (507) |
| **Actuarial remeasurement of defined benefit obligations** | **407** | **111** | **(861)** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Table 6-45: Basic actuarial assumptions in relation to employee benefit plans for the year ended 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Discount ratio | 4.55% | 2.95% | 1.70% |
| Expected rate of salary increments | 5.00% | 2.95% | 5.00% |
| Normal retirement age | 60 | 60 | 60 |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

The discount rate was reduced during 2020G to 1.7% to reflect the current market returns of sovereign bonds, taking into account the average term of the defined benefit obligations for a period of 7 years. The Management has also increased the expected salary increment rate to 5% based on the latest available trends around salary increments for the Company's employees. Assumptions regarding future mortality are determined based on actuarial advice, based on published statistics and experience in the region.

Table 6-46: Statement of entitlement to the defined benefit obligation for the year ended 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Weighted average term to vesting of defined benefits | 9.96 | 10 | 7.38 |
| Time Distribution of Benefit Payments: | | | |
| First year | 472 | 514 | 929 |
| Second Year | 543 | 1,048 | 1,473 |
| Third Year | 1,080 | 670 | 981 |
| Fourth year | 685 | 740 | 969 |
| Fifth year | 986 | 800 | 1,033 |
| From 6 to 10 years | 7,749 | 7,298 | 5,515 |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

Table 6-47: Impact of Evaluation of Defined Benefit Obligations for the Year Ended on 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Discount rate +0.5% | (429) | (470) | (310) |
| Discount rate -0.5% | 429 | 470 | 310 |
| Expected salary increment rate +0.5% | 298 | 364 | 252 |
| Expected salary increment rate -0.5% | (298) | (364) | (252) |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

**Potential Obligations and Commitments**

During the course of its normal activities, the Company faces some lawsuits and other claims related to the nature of its activities. However, it is not expected that the existing cases will result in any material claims as at the date of the financial statements.

## 6-2-3 Consolidated Statement of Cash Flows

Table 6-48: Consolidated statement of cash flows for the fiscal years ending on 31 December 2018G, 2019G and 2020G:

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Operational activities | | | |
| Net income before Zakat and income tax | 75,780 | 78,725 | 97,577 |
| Adjustments to match net profit to net cash generated from operating activities: | | | |
| Depreciation and amortization | 2,778 | 5,327 | 5,201 |
| Amortization of fees for establishing deferred contracts | 3,746 | 4,128 | 3,976 |
| Provision for expected credit losses | 32,189 | 11,224 | 7,500 |
| Provision for employees' end of service benefits | 1,638 | 1,879 | 1,887 |
| Financing costs for a lease commitment | - | 527 | 236 |
| Net (increase) / decrease in operating assets: | | | |
| Prepaid expenses and other assets, net | (15,260) | (26,161) | (6,804) |
| Due from related parties | 134 | 132 | 132 |

| SAR'000 | As at 31 December 2018 (Audited) | As at 31 December 2019 (Audited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| Advance payments to property owners | 5,845 | 3,519 | (4,381) |
| Investments in finance leases | (65,039) | (63,551) | 33,380 |
| Net increase / (decrease) in operating liabilities: | | | |
| Accounts Payable | 29,182 | 19,655 | (42,487) |
| Accrued expenses and other liabilities | 666 | 2,589 | 229 |
| Advance rent payments | (3,826) | (282) | (3,099) |
| **Net cash generated from operating** | **67,834** | **37,710** | **93,347** |
| Zakat and income tax paid | (6,750) | (32,995) | (16,068) |
| Paid severance pay | (369) | (1,203) | (2,031) |
| Paid deferred contract establishment fee | (1,119) | (109) | (212) |
| **Net cash generated from operating activities** | **59,596** | **3,403** | **75,036** |
| Investment activities | | | |
| Purchase of property and equipment | (555) | (1,677) | (1,551) |
| Purchase of intangible assets | (622) | (1,401) | (766) |
| **Net cash used in investing activities** | **(1,177)** | **(3,078)** | **(2,317)** |
| Financing activities | | | |
| Additions to Tawarruq Financing Facility | 282,478 | 365,486 | 234,831 |
| Paid from Tawarruq Financing Facility | (286,341) | (387,802) | (216,870) |
| Paid from the principal part of the lease obligation | - | (3,453) | (2,552) |
| **Net cash (used) / generated from financing activities** | **(3,862)** | **(25,768)** | **15,409** |
| **Net increase / (decrease) in cash and cash equivalents** | **54,557** | **(25,444)** | **88,128** |
| Cash and its equivalent at the beginning of the year | 25,086 | 79,643 | 54,200 |
| **Cash and cash equivalents at the end of the year** | **79,643** | **54,200** | **142,328** |

Source: Audited financial statements for the years ended December 31, 2018, 2019 and 2020

### Net Cash Generated from Operating Activities

The net cash generated from operating activities decreased from SAR 59.6 million in fiscal year 2018G to SAR 3.4 million in fiscal year 2019G, mainly due to the increase in Zakat and income tax paid (SAR + 26.2 million) mainly related to Zakat and tax Income for previous years upon settlement with the General Authority for Zakat and Income.

Net cash generated from operating activities increased to SAR 75.0 million in fiscal year 2020G, as a result of working capital changes which included an increase in investments in finance lease contracts (SAR + 96.9 million) including the sale of a portfolio of SAR 50.2 million in November 2020G.

### Net Cash Used in Investing Activities

The net cash used in investing activities increased from SAR 1.2 million in the fiscal year 2018G to SAR 3.1 million in the 2019G fiscal years, due to the increase in purchases of property, equipment and intangible assets in line with the Company's digital initiatives and continuous system updates to keep pace with the continuous change and emerging technologies. Cash used in investment activities decreased to reach SAR 2.3 million in the fiscal year 2020G, due to the decrease in purchases of intangible assets as a result of the current Covid-19 pandemic.

### Net Cash (Used) / Generated From Financing Activities

The net cash used in financing activities increased from SAR 3.9 million in fiscal year 2018G to SAR 25.8 million in fiscal year 2019G, as a result of the increase in repayments from Tawarruq financing facilities (SAR + 101.5 million) and payments of the principal portion of the lease commitment (SAR + 3.5 million). This was offset by additions to the Tawarruq financing facilities (SAR +83.0 million) in line with the increase in the number of loans created during the year.

The cash generated from financing activities amounted to SAR 15.4 million in the fiscal year 2020G, mainly due to a decrease in the repayment of the tawarruq financing facilities (SAR -107.9 million) in addition to additions in the tawarruq financing facilities (SAR +234.8 million).

## 6-3 Results of Operations for the Six-Month Period Ending 30 June 2021G

**Significant Accounting Policies**

The accounting policies, estimates and assumptions used in preparing these interim condensed financial statements are consistent with those used in preparing the annual financial statements as at and for the year ended 31 December 2020G, except as indicated below:

### 6-3-1 Statement of Income

The following table shows the consolidated income statements for the six months period ending on 30 June 2021G

Table 6-49: Consolidated income statements for the six-month period ending on 30 June 2021

| SAR'000 | Six-month period ending 30 June 2020 (Non audited) | Six-month period ending 30 June 2021 (Non audited) | Change |
|---|---|---|---|
| Income from lease financing contracts | 145,263 | 140,661 | (3.2%) |
| Service fee, net | 3,778 | 2,857 | (24.4%) |
| Revenue from funding requests and evaluation fees | 2,862 | 2,896 | 1.20% |
| Other income | - | 3,061 | - |
| **Gross operating profit** | **151,903** | **149,476** | **(1.6%)** |
| Financing Fee | (50,803) | (37,448) | (26.3%) |
| Gross profit | 101,099 | 112,027 | 10.80% |
| General and administrative expenses | (45,387) | (50,651) | 11.60% |
| Provision for expected credit losses | (15,037) | 11,628 | (177.3%) |
| Selling and marketing expenses | (6,974) | (6,476) | (7.1%) |
| **Total operating expenses** | **(67,398)** | **(45,499)** | **(32.5%)** |
| **Net profit before Zakat and income tax** | **33,701** | **66,529** | **97.40%** |
| Zakat and income tax expense for the current year | (4,230) | (6,486) | 53.30% |
| Zakat for previous years | - | (914) | - |
| Deferred tax | 696 | (369) | (153.0%) |
| **Total Zakat and Income Tax** | **(3,534)** | **(7,769)** | **119.80%** |
| **Net profit after Zakat and income tax** | **30,167** | **58,759** | **94.80%** |

Table 6-50: Key performance indicators for the six-month period ending on June 30, 2021

| SAR'000 | Six-month period ending June 30, 2020 (Non audited) | Six-month period ending June 30, 2021 (Non audited) | Change (points) |
|---|---|---|---|
| General and administrative expenses | 29.90% | 33.90% | (4.0) |
| Provision for expected credit losses | 9.90% | 7.80% | 17.7 |
| Selling and marketing expenses | 4.60% | 4.30% | 0.3 |
| Gross operating profit | 66.60% | 74.90% | 8.4 |
| Net profit after Zakat and income tax | 20.80% | 41.80% | 21.0 |
| Key Performance Indicators | | | |
| Average Annual ratio | 6.60% | 6.60% | 0.0 |
| Average cost of financing | 3.60% | 2.70% | 0.4 |
| Total return | 3.00% | 3.80% | 0.4 |
| Portfolio Sale (Million Saudi Riyals) | - | 92.8 | N/A |

Source: The interim (unaudited) financial statements for the six-month period ended June 30, 2021G

**Operating Profit**

The Company's operating profit principally consists of income from lease financing contracts, service fees, and loan and appraisal fee income. The Company's revenue flow comes primarily from the creation of Ijarah Loans, where capital and loans are obtained to finance the purchase of homes, residential land and apartments for retail clients. In 2014G, the Company sold a portfolio with Arab National Bank and used the proceeds to settle outstanding loans. The Company establishes sales for the Saudi Real Estate Refinance Company, and the portfolio is sold after 6 to 8 months while retaining the service fees. The focus of the Company in the type of employer throughout the historical period is mainly on the expected retirement income plan, retirees and government employees as it is less. The Saudi Home Loans Company has an approved and unapproved list of employers that are determined by the rating and history of the employers, which has an impact on the risk assessment that is made when processing loan applications. The Company's focus on operating profit by property type is mainly villas and apartments in the fiscal year 2020G, in line with market demand in the Kingdom of Saudi Arabia.

Operating profit decreased by 1.6% from SAR 151.9 million in the six-month period ending on 30 June 2020G to SAR 149.5 million in the six-month period ending on 30 June 2021G, due to the decrease in income from lease financing contracts (- SAR 4.6 million ) as a result of portfolio sales of the Saudi Real Estate Refinance Company, which amounted to SAR 51.3 million in November 2020G, and SAR 92.8 million in March 2021G. The annual percentage rate decreased slightly by 0.1 point as a result of lower SAIBOR rates.

The decrease in gross operating profit of SAR 3.1 million was partially offset by other income. This relates to the premium on a payment received from the sale of a portfolio to the Saudi Real Estate Refinance Company in March 2021G.

### Income From Lease Financing Contracts

Income from lease financing contracts decreased by 3.2% from SAR 145.3 million in the six-month period ending on 30 June 2020G to SAR 140.7 million in the six-month period ending on 30 June 2021G, mainly due to a decrease in the average net investment in the balance Finance leasing through portfolio sales to Saudi Refinance Real Estate Company amounting to SAR 50.1 million in November 2020G and SAR 92.8 million in March 2021G.

### Service Fee, Net

Service fees decreased by 24.4% from SAR 3.8 million in the six-month period ending on 30 June 2020G to SAR 2.8 million in the six-month period ending on 30 June 2021G, mainly due to the decrease in the ANB's off-balance sheet portfolio. It was also related to many settlements. This decrease was offset by an increase in net service fees from the Saudi Real Estate Refinance Company, which resulted from the sales of the previously mentioned portfolio.

### Revenue From Funding Requests and Evaluation Fees

Revenue from financing applications and appraisal fees remained stable at SAR 2.9 million in the six-month period ending on 30 June 2020G and 30 June 2021G.

### Other Income

Other income amounted to SAR 3 million in the six-month period ending on 30 June 2021G, and this mainly relates to a premium received from the sale of the portfolio to the Saudi Real Estate Refinance Company in March 2021G.

### Financing Fee

Financing charges are represented by the profits paid on the Tawarruq financing facility, which was used primarily for the creation of loans, although management is able to use these funds for other working capital requirements.

Financing fees decreased by 26.3% from SAR 50.8 million in the six-month period ending on 30 June 2020G to SAR 37.4 million in the six-month period ending on 30 June 2021G, mainly due to the decrease in the average balance of outstanding loans in addition to the decrease in the average cost of funding by 0.4 points, resulting from a decrease in the average SAIBOR rate by 0.6 points.

### Gross Profit

Gross profit increased by 10.8% from SAR 101.1 million in the six-month period ending on 30 June 2020G to SAR 112.0 million in the six-month period ending on 30 June 2021G, due to the decrease in financing fees, as was coupled with the realization of other income from Commission of selling the portfolio of the Saudi Real Estate Refinance Company, amounting to SAR 3 million.

### General and Administrative Expenses

General and administrative expenses increased by 11.6% from SAR 45.4 million in the six-month period ending on 30 June 2020G to SAR 50.7 million in the six-month period ending on 30 June 2021G, mainly due to the increase in portfolio insurance fees (+ SAR 4.3 million) by increasing the insurance premiums resulting from the increase in settled claims, and starting to provide coverage for joint applications. This was coupled with an increase in employee salaries and other benefits by SAR 2.3 million due to the increase in the Company's employees in addition to the allocation of additional external employees to its sales department in order to achieve its inception goals.

### Allowance For Expected Credit Losses

The provision for expected credit losses decreased from SAR 15.0 million in the six-month period ending on 30 June 2020G to SAR 11.6 million in income in the six-month period ending on 30 June 2021G, due to the improvement in the level of collection in the six-month period ending on 30 June 2021G. This was also coupled with settlement of overdue balances.

### Selling and Marketing Expenses.

Selling and marketing expenses mainly consist of contract creation expenses, appraisal fees, sales commission and transfer of ownership. Selling and marketing expenses decreased by 7.1% from SAR 7.0 million in the six-month period ending on 30 June 2020G to SAR 6.5 million in the six-month period ending on 30 June 2021G, mainly due to the decrease in marketing expenses (SAR - 2.4 million ) as a result of hiring specialized individuals for marketing activities instead of contracting with third parties.

### Total Zakat and Income Tax

Total Zakat and income tax increased by 119.8% from SAR 3.5 million in the six-month period ending on 30 June 2020G to SAR 7.8 million in the six-month period ending on 30 June 2021G, mainly due to the increase in Zakat and income tax expenses for the current year ( SAR + 2.3 million) through an increase in the Zakat base.

Zakat related to previous years amounted to SAR 914 thousand in the six-month period ending on 30 June 2021G, and relates to tax assessments with the Zakat, Tax and Customs Authority for the years 2014G and 2015G.

The deferred tax decreased from income of SAR 696 thousand in the six-month period ending on 30 June 2020G to an expense of SAR 369 thousand in the six-month period ending on 30 June 2021G as a result of the end-of-service benefits for employees as it was coupled with expected credit losses during the same period.

### Net Profit After Zakat and Income Tax

The net profit after Zakat and income tax increased by 94.8% from SAR 30.1 million in the six-month period ending on 30 June 2020G to SAR 58.8 million in the six-month period ending on 30 June 2021G, mainly due to a reflection in the provision for expected credit losses. (SAR +26 million, for the six-month period ending in fiscal year 2020G and fiscal year 2021G), mainly due to improvement in collection and settlement of overdue balances.

### Financing Fees

Table 6-51: Movement during the six-month period ending on 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) | Change |
|---|---|---|---|
| Balance at the beginning of the year | 2,801,923 | 2,819,885 | 0.60% |
| loans during the year | 224,322 | 65,795 | (70.70%) |
| Repaid during the year | (212,370) | (139,071) | (34.50%) |
| Finance fees due during the year | 93,168 | 37,448 | (59.80%) |
| Finance fees paid during the year | (87,158) | (37,175) | (57.30%) |
| **Balance at the end of the year** | **2,819,885** | **2,746,882** | **(2.60%)** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Table 6-52: Financing fees related to the facilities for the six-month period ending on 30 June 2021G

| SAR'000 | Six-month period ending 30 June, 2020 (Non audited) | Six-month period ending 30 June, 2021 (Non audited) | Change |
|---|---|---|---|
| Arab national Bank | 33,681 | 24,224 | (28.10%) |
| Gulf International Bank | 7,786 | 5,473 | (29.70%) |
| International Finance Corporation | 5,692 | 4,760 | (16.40%) |
| National Commercial Bank | 3,952 | 2,112 | (46.60%) |
| Saudi Real Estate Refinance Company | (307) | 879 | (386.00%) |
| **Total** | **50,803** | **37,448** | **(26.20%)** |
| Average cost of financing | 3.30% | 2.70% | (0.5) |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

The Tawarruq financing facility is planned to be repaid as follows:

Table 6-53: The financing facilities repayment schedule as of 30 June 2021G

| Years | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| 2021 | 1,105,227 | 111,157 |
| 2022 | 514,525 | 612,652 |
| 2023 | 796,900 | 851,541 |
| 2024 | 60,361 | 130,627 |
| 2025 | 65,556 | 364,123 |
| 2026 - 2034 | 277,316 | 676,779 |
| **Total** | **2,819,884** | **2,746,881** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Financing fees decreased by 26.3% from SAR 50.8 million in the fiscal year 2020G to SAR 37.4 million as of 30 June 2021G, due to the decrease in the Arab National Bank's off-balance sheet portfolio, and it was coupled with many adjustments. This was partially offset by a decrease from the Arab National Bank, in part by an increase in net service fees, from the Saudi Real Estate Refinance Company, considering the sales of the previously mentioned portfolio.

The Saudi Central Bank issued a new directive in 2018G that stipulates that the total bank exposure values to an individual, a sole proprietorship or a partnership should not be more than 5% of the eligible capital base available to banks at all times given that ANB already has relatively large facilities coupled with a large due balance, the Company's financing strategy has shifted towards other lenders and with this, the Company has sought to diversify its financing facilities and reduce dependence on the Arab National Bank.

**General And Administrative Expenses**

Table 6-54: General and administrative expenses for the six-month period ending on 30 June 2021G

| SAR'000 | Six-month period ending 30 June, 2020 (Non audited) | Six-month period ending 30 June, 2021 (Non audited) | Change |
|---|---|---|---|
| Employee salaries and other benefits | 24,064 | 26,353 | 9.50% |
| Portfolio insurance fee | 7,719 | 12,044 | 56.00% |
| Depreciation and amortization | 2,955 | 2,322 | (21.40%) |
| Consulting fees | 3,097 | 3,286 | 6.10% |
| Software support fee | 808 | 1,484 | 83.70% |
| Collection commission | 1,178 | 1,362 | 15.70% |
| VAT expenses | 253 | 1,761 | 596.70% |
| Communication expenses | 435 | 432 | (0.70%) |
| Repair and maintenance | 303 | 116 | (61.50%) |
| Bank fees | 243 | 207 | (14.70%) |
| Travel expenses | 197 | 166 | (15.80%) |
| Recruitment expenses | 131 | 78 | (40.10%) |
| Stationery and prints | 68 | 95 | 40.90% |
| Withholding tax | 11 | 43 | 277.30% |
| Other | 3,926 | 900 | (77.10%) |
| **Total** | **45,387** | **50,651** | **11.60%** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Table 6-55: Key performance indicators for the six-month period ending on June 30, 2021G

| KPIs | Six-month period ending 30 June, 2020 (Non audited) | Six-month period ending 30 June, 2021 (Non audited) | Change |
|---|---|---|---|
| Key Performance Indicators | | | |
| Number of Employees | 170 | 168 | (1.20%) |
| Average monthly salary per employee | 14,894 | 14,976 | 0.50% |
| Saudi employees as a percentage of the total number of employees | 88.24% | 89.88% | 1.7 |
| | As a percentage of revenue | | points |
| Employee salaries and other benefits | 15.80% | 17.60% | 1.8 |
| Portfolio insurance fee | 5.10% | 8.10% | 3.0 |
| Depreciation and amortization | 1.90% | 1.60% | (0.4) |
| Consulting fees | 2.00% | 2.20% | 0.2 |
| Software support fee | 0.50% | 1.00% | 0.5 |
| Collection commission | 0.80% | 0.90% | 0.1 |
| Value-added tax expenses | 0.20% | 1.20% | 1.0 |
| Other | 3.50% | 1.40% | (2.1) |
| **Total** | **29.90%** | **33.90%** | **4.0** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

### Employee Salaries and Other Benefits

Staff salaries and other benefits consist mainly of basic salaries, medical insurance for employees, bonuses, social security and other expenses. Employee salaries and other benefits increased by 9.5% from SAR 24.1 million in the six-month period ending on 30 June 2020G to SAR 26.4 million in the six-month period ending on 30 June 2021G, as a result of an increase in the number of external contracts for employment (SAR 1.9 million). This is mainly due to an increase in the number of outsourced employees assigned to the sales department in order to meet the objectives of the Company's new contract creation operations.

### Portfolio Insurance Fee

Portfolio insurance fee represents life insurance (from Medgulf Insurance) on the outstanding amount for each individual loan. Coverage includes life insurance or disability of the client. Portfolio insurance fees increased by 56.0% from SAR 7.7 million in the six-month period ending on 30 June 2020G to SAR 12.0 million in the six-month period ending on 30 June 2021G, due to the increase in claims cases due to death and total disability cases during the period. The introduction of joint coverage to the applicant has also contributed to the increase in portfolio insurance fees.

#### Depreciation and Amortization

Depreciation and amortization expenses mainly relate to plants and equipment, in addition to the amortization of right-of-use assets as per International Financial Reporting Standard 16 (IFRS 16). Depreciation and amortization decreased by 21.4% from SAR 3 million in the six-month period ending on 30 June 2020G to SAR 2.3 million in the six-month period ending on 30 June 2021G and mainly relates to property and equipment, in addition to the depreciation of right-of-use assets in accordance with IFRS 16.

#### Consulting Fees

Consulting fees are represented in the fees of legal and administrative consultants, fees of Sharia council consultants, fees of cyber security consultants and audit fees.

Consulting fees increased by 6.1% from SAR 3.1 million in the six-month period ending on 30 June 2020G to SAR 3.3 million in the six-month period ending on 30 June 2021G. This increase is mainly due to increases in related fees in line with the normal course of the work requirements.

#### Software Support Fees

Software support fees are composed of annual agreements with software support and licensing companies. Program support fees increased by 83.7% from SAR 808 thousand in the six-month period ending on 30 June 2020G to SAR 1.5 million in the six-month period ending on 30 June 2021G due to the new requirements imposed by the Saudi Central Bank that required system improvements and were linked to primarily in cyber security.

#### Collection Commission

Collection commission represents the amounts disbursed to the collection department based on the collection level in the year. This came to stimulate and increase cash collection and improve the level of overdue loans. Collection commissions represent the bulk of the collection department salaries in addition to the basic monthly salaries.

The collection commission increased by 15.7% from SAR 1.2 million in the six-month period ending on 30 June 2020G to SAR 1.4 million in the six-month period ending on 30 June 2021G, mainly due to the increased focus on collection. This improvement resulted in an increase in Collection commission, and reversal of the expected credit loss provision amounting to SAR 11.6 million in the six-month period ending on 30 June 2021G.

#### VAT Expenses

Value-added tax expenses increased by 596.7% from SAR 253 thousand in the six-month period ending on 30 June 2020G to SAR 1.8 million in the six-month period ending on 30 June 2021G, due to the introduction of the real estate transaction tax in October 2020G. The real estate transaction tax resulted in a decrease in the VAT refund on purchases made by the Company, which contributed to an increase in the value added tax expense.

#### Communication Expenses

Communications expenses consist mainly of telephone and internet expenses. Communications expenses remained stable at SAR 435 thousand in the six-month period ending on 30 June 2020G, 2021G.

#### Repair and Maintenance

Repair and maintenance expenses mainly relate to repair expenses related to buildings and offices. Repair and maintenance costs decreased by 61.5% from SAR 303 thousand in the six-month period ending on 30 June 2020G to SAR 116 thousand in the six-month period ending on 30 June 2021G due to the decrease in the Company's needs in line with the closure and quarantine as a result of the Covid-19 pandemic. .

#### Bank Fees

Bank fees include commissions, transfer fees and fees related to the SADAD system. Bank fees decreased by 14.7% from SAR 243 thousand in the six-month period ending on 30 June 2020G to SAR 207 thousand in the six-month period ending on 30 June 2021G. This is due to support from the Central Bank of the finance sector, the postponement of installments on loans, and the decrease in activity in the finance sector as a result of the Covid-19 pandemic.

#### Travel Expenses

Travel expenses include accommodation costs and airline tickets. Travel expenses decreased by 15.8% from SAR 197 thousand in the six-month period ending on 30 June 2020G to SAR 166 thousand in the six-month period ending on 30 June 2021G due to the current COVID-19 pandemic.

#### Recruitment Expenses

Recruitment expenses include expenses paid to hiring companies. Recruitment expenses decreased by 40.1% from SAR 131 thousand in the six-month period ending on 30 June 2020G to SAR 78 thousand in the six-month period ending on 30 June 2021G, mainly due to the decrease in assignments during the period, mainly resulting from the repercussions of the Covid- 19 pandemic.

#### Stationery and Publications

Stationery and publications increased by 40.9% from SAR 68 thousand in the six-month period ending on 30 June 2020G to SAR 95 thousand in the six-month period ending on 30 June 2021G due to the increase in stationery inventory.

#### Withholding Tax

Withholding tax increased by 277.3% from SAR 11 thousand in the six-month period ending on 30 June 2020G to SAR 43 thousand in the six-month period ending on 30 June 2021G. This is due to the introduction of the real estate transaction tax system and the difference in the calculation mechanism of the value-added tax on company purchases, which led to an increase in expenses.

#### Other

Other expenses consist mainly of training expenses, shipping and subscriptions. Other costs decreased by 77.1% from SAR 3.9 million in the six-month period ending on 30 June 2020G to SAR 900 thousand in the six-month period ending on 30 June 2021G as a result of not recording impairment losses for real estate recovered in the first six months of 2021G.

#### Investments in Lease Contracts

Table 6-56: Obsolescence of investments in lease contracts for a period as of 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Current | 2,775,522 | 2,931,848 |
| 1 - 30 days | 947,248 | 883,122 |
| 31 - 60 days | 310,360 | 262,631 |
| 61 - 90 days | 64,749 | 44,086 |

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| 91 - 180 days | 23,408 | 16,997 |
| 180+ days | 160,282 | 143,880 |
| **Total investments in finance leases** | **4,281,569** | **4,282,564** |
| Provision for expected credit losses | (82,430) | (71,056) |
| **Net investments in finance leases** | **4,199,139** | **4,211,508** |
| As a percentage of the total | | |
| Current | 64.80% | 68.50% |
| 1 - 30 days | 22.10% | 20.60% |
| 31 - 60 days | 7.20% | 6.10% |
| 61 - 90 days | 1.50% | 1.00% |
| 91 - 180 days | 0.50% | 0.40% |
| 180+ days | 3.70% | 3.40% |

Source: Management information

Investments in finance lease contracts that are more than 31 days past its due date decreased from 12.9% as on 31 December 2020G to 10.9% as on 30 June 2021G, mainly due to the Company's increased focus on collection, which also resulted in the decrease in provisions for expected credit losses from SAR 82.4 million as on 31 December 2020G to SAR 71.1 million as on 30 June 2021G.

### Selling And Marketing Expenses

Table 6-57: Selling and marketing expenses for the six-month period ending on 30 June 2021G

| SAR'000 | Six-month period ending 30 June, 2020 (Non audited) | Six-month period ending 30 June, 2021 (Non audited) | Change |
|---|---|---|---|
| Contract creation expenses | 1,919 | 1,844 | (3.90%) |
| Evaluation fees | 1,358 | 2,096 | 54.30% |
| Sales and property transfer commission | 1,781 | 2,239 | 25.70% |
| Marketing expenses | 1,761 | 159 | (91.00%) |
| Other | 156 | 138 | (11.30%) |
| **Total** | **6,974** | **6,476** | **(7.10%)** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Table 6-58: KPIs for the six-month period ended on 30 June 2021G

| SAR'000 | Six-month period ending June 30, 2020 (Non audited) | Six-month period ending June 30, 2021 (Non audited) | Change (points) |
|---|---|---|---|
| Contract creation expenses | 1.30% | 1.20% | (0.0) |
| Evaluation fees | 0.90% | 1.40% | 0.5 |
| Sales and property transfer commission | 1.20% | 1.50% | 0.3 |
| Marketing expenses | 1.20% | 0.10% | (1.1) |
| Other | 0.10% | 0.10% | (0.0) |
| **Total** | **4.60%** | **4.30%** | **(0.3)** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

**Contract Creation Expenses**

Contract creation expenses relate to commission and expenses paid to ANB as part of the Company's profit-sharing agreement in respect of the Company's off-balance sheet portfolio with ANB. Contract creation expenses decreased by 3.9% from SAR 1.9 million in the six-month period ending on 30 June 2020G to SAR 1.8 million in the six-month period ending on 30 June 2021G as a result of the decrease in establishment expenses despite the increase in creation operations due to a decrease in the balance of deferred creation fees, as a result of the increase in loans that were settled and repaid by customers related to the off-balance sheet portfolio sold to Arab National Bank in the year 2014G.

**Appraisal Fee**

The appraisal fees relate to fees related to real estate appraisal, which are performed as part of loan applications, on a periodic basis and on an as-needed basis. Appraisal fees increased by 54.3% from SAR 1.4 million in the six-month period ending on 30 June 2020G to SAR 2.2 million in the six-month period ending on 30 June 2021G, due to an increase in the number of applications for creation operations, in line with growth objectives and additional sales efforts.

**Sales Commission and Ownership Transfer**

Sales commission and ownership transfer relates to the commission paid on contract construction from sales staff. The commission for sales and ownership collection increased by 25.7% from SAR 1.8 million in the six-month period ending on 30 June 2020G to SAR 2.2 million in the six-month period ending on 30 June 2021G. This was mainly due to the increase in creation in line with growth objectives and additional sales efforts, as well as the increase in sales commission and ownership as a result of the transfer of title deeds from the Arab National Bank to the Saudi Home Loans Company in accordance with the mortgage law.

**Marketing Expenses**

Marketing expenses represent expenses related to marketing and advertising such as agreements with marketing agencies and expenses related to social media marketing. Marketing expenses decreased by 91.0% from SAR 1.8 million in the six-month period ending on 30 June 2020G to SAR 159 thousand in the six-month period ending on 30 June 2021G, due to the recruitment of specialized marketing personnel to build the internal capabilities of the Company. This was also coupled with a significant decrease in marketing contracts.

### Other

Other costs consist of many sales-related elements of the credit approval process. Other costs decreased by 7.1% from SAR 156 thousand in the six-month period ending on 30 June 2020G to SAR 138 thousand in the six-month period ending on 30 June 2021G, due to the timing of recording many expenses.

### Total Zakat and Income Tax

Table 6-59: Movement in the Company's provision for Zakat and tax for the six-month period ending on 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Balance at the beginning of the year | 27,978 | 24,645 |
| Zakat provision for the current year | 7,970 | 6,486 |
| Zakat provision for previous years | - | 914 |
| Income tax provision for the current year | 4,765 | - |
| Paid during the year | (16,068) | (13,349) |
| **Balance at the end of the year** | **24,645** | **18,696** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

### Provision for Zakat and Income Tax

On 03 February 2021G, the Company received income tax assessments from the Zakat, Tax and Customs Authority for the years 2014G and 2015G amounting to SAR 914 thousand. The Company settled the assessment on 18 March 2021G. Provision for Zakat and income tax decreased from SAR 24.6 million as of 31 December 2021G to SAR 18.6 million as of 30 June 2021G. This is mainly due to the settlement of Zakat and tax for the previous year (Fiscal Year 2020G).

## 6-3-2 Financial Position - Statement of Financial Position

### Statement of Financial Position

Table 6-60: Statement of the Company's financial position as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Assets | | |
| Cash and cash equivalent | 142,328 | 107,609 |
| Prepaid expenses and other assets, net | 67,771 | 58,661 |
| Advance payments to property owners | 6,774 | 16,978 |
| Due from related parties | 633 | 1,180 |

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Investment | 893 | 893 |
| Investments in finance leases, net | 4,199,139 | 4,216,180 |
| Fees for establishing deferred contracts | 22,028 | 20,246 |
| Other properties | 8,657 | 13,123 |
| Right-of-use assets | 3,806 | 2,601 |
| Property and equipment, net | 5,272 | 4,658 |
| Deferred tax assets | 4,837 | 4,468 |
| Intangible assets, net | 2,500 | 2,735 |
| **Total assets** | **4,464,638** | **4,449,332** |
| Liabilities | | |
| Accounts Payable | (8,106) | (6,218) |
| Accrued expenses and other liabilities | (9,326) | (13,100) |
| Advance rent payments | (4,397) | (9,367) |
| Lease obligations | (3,842) | (1,353) |
| Provision for Zakat and income tax | (24,645) | (18,696) |
| Tawarruq financing facilities | (2,819,884) | (2,746,881) |
| End of Service Benefit Obligation | (8,372) | (9,026) |
| **Total Liabilities** | **(2,878,571)** | **(2,804,642)** |
| Equity | | |
| Capital | 1,000,000 | 1,000,000 |
| Statutory reserve | 106,160 | 112,036 |
| Other reserves | 1,157 | 1,023 |
| Retained earnings | 478,749 | 531,632 |
| **Total Equity** | **1,586,066** | **1,644,691** |
| **Total Liabilities and Equity** | **4,464,637** | **4,449,332** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Table 6-61: Key performance indicators for a period as of December 31, 2020 and June 30, 2021

| KPIs | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| ANB's off-balance sheet portfolio (first payment) (thousand Saudi Riyals) | 80,048 | 72,048 |
| Arab National Bank's off-balance sheet portfolio (second instalment) (thousand Saudi Riyals) | 134,485 | 124,329 |
| Arab National Bank's off-balance sheet portfolio (third instalment) (thousand Saudi Riyals) | 92,903 | 83,878 |
| Debt Service Ratio | 51.50% | 52.3% |
| loan for value | 82.60% | 82.4% |
| Debt to Equity* | 1.7 | 1.6 |
| Return on assets | 1.90% | 1.3% |
| Return on equity | 5.40% | 3.6% |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

* The financing structure of the Company is represented by the paid-in capital from the partners, in addition to borrowing from local banks. The debt-to-equity ratio was 1.7 as on December 30, 2020 and decreased to 1.6 as on June 30, 2021.

### Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and bank balances. Cash and cash equivalents decreased from SAR 142.3 million as of 31 December 2020G to SAR 107.6 million as of 30 June 2021G, mainly due to a decrease in loan withdrawals amounting to SAR 131.6 million, offset by an increase in repayments of SAR 40.6 million.

### Prepaid Expenses and other Assets

Prepaid expenses and other assets decreased from SAR 67.8 million as of 31 December 2020G to SAR 58.7 million as of 30 June 2021G, mainly due to the decrease in value-added tax debited by SAR 4.1 million resulting from the start of dealing with the real estate transaction tax in addition to a decrease in the submitted tax by SAR 2.7 million and the amounts owed from the Real Estate Development Fund by SAR 1.6 million.

### Advance Payments to Property Owners

Advances to Property Owners Account is a temporary account for checks issued to clients, to clients of continents under title deed transfer. Payments made to property owners increased from SAR 6.8 million as of 31 December 2020G to SAR 17.0 million as of 30 June 2021G, mainly due to the increase in checks due that were not settled due to the completion of administrative procedures.

### Due From Related Parties

Due from related parties increased from SAR 633 thousand as of 31 December 2020G to SAR 1.2 million as of 30 June 2021G, due to invoices related to ownership transfer fees.

#### Investment

The investment remained stable at SAR 893 thousand during the historical period from 31 December 2020G to 30 June 2021G, and it relates to an investment in the Sejil Company, which is a monitoring and record keeping entity.

#### Investments in Finance Leases

Investments in finance lease contracts remained stable at SAR 4.2 billion as of 31 December 2020G and 30 June 2021G.

#### Fees for Establishing Deferred Contracts

The deferred contract creation fee relates to the deferred portion of the contract fee that is paid when an application is submitted through the ANB channel. This fee is amortized on a monthly basis over the life of the loan once the loan amount is disbursed.

Fees for establishing deferred contracts decreased from SAR 22.0 million as of 31 December 2020G to SAR 20.2 million as of 30 June 2021G, due to the decrease in new creation operations through the Arab National Bank channel.

#### Other Properties

Other real estate relates to real estate that has been fully reacquired from clients through the courts or under mutual agreements. The Company finances these properties again, after which this account is transferred to investments in finance lease contracts. Other real estate increased from SAR 8.6 million on 31 December 2020G to SAR 13.1 million as of 30 June 2021G, due to reacquired properties in the amount of SAR 9.4 million, coupled with the reversal of impairment losses amounting to SAR 4.8 million. This is offset by real estate sold in the amount of SAR 4.9 million as of 30 June 2021G.

#### Right-of-Use Assets

Right-of-use assets primarily relate to the Company's head office in Riyadh, as well as branches in Jeddah and Dammam. Right-of-use assets decreased from SAR 3.8 million as of 31 December 2020G to SAR 2.6 million as of 30 June 2021G due to depreciation as a result of the lack of additions during the six-month period ending in 2021G as of 30 June 2021G.

#### Property and Equipment

Property and equipment decreased from SAR 5.3 million as of 31 December 2020G, to SAR 4.7 million as of 30 June 2021G, mainly due to depreciation of SAR 645 thousand which was offset by slight additions. The Company has transferred SAR 1.1 million of working capital to other asset classes mainly related to computers, furniture and fixtures.

#### Deferred Tax Assets

Deferred tax assets decreased from SAR 4.8 million as of 31 December 2020G to SAR 4.5 million as of 30 June 2021G, due to the movement in the provision for expected credit losses and end of service benefits, as part of calculating deferred tax assets.

**Intangible Assets**

Intangible assets relate to the Company's software and applications, including the enterprise resource planning system and internal underwriting systems. Intangible assets increased from SAR 2.5 million as of 31 December 2020G to SAR 2.7 million as of 30 June 2021G, due to additions of SAR 667 thousand in the six-month period ending in 2021G related to system and software development, including Cyber security. This was offset by an amortization expense of SAR 432 thousand.

**Accounts Payable**

Accounts payable mainly relate to amounts owed to the Ministry of Housing, as a result of the Ministry of Housing's initiative to encourage home ownership through ready units. The Ministry of Housing purchased a large plot of land and was unable to finalize the title deeds when dividing it into plots of land for clients. Accordingly, the Ministry of Housing requested the Company to refrain from disbursing the amounts due until the title deeds are processed and transferred successfully.

Accounts payable decreased from SAR 8.1 million as of 31 December 2020G to SAR 6.2 million as of 30 June 2021G mainly due to settlement of outstanding amounts.

**Accrued Expenses and other Liabilities**

Accrued expenses and other liabilities increased from SAR 9.3 million as of 31 December 2020G to SAR 13.1 million as of 30 June 2021G, mainly due to an increase in employee-related expenses amounting to SAR 2.7 million, coupled with an increase in accumulated insurance fees of SAR 566 thousand. The accrued expenses represent 12 months for the period ending on 31 December 2020G, while they represent only 6 months for the period ended 30 June 2021G.

**Advance Rent Payments**

The lease payments made relate to early settlements made by clients that were not liquidated by the end of the year. The advance lease payments increased from SAR 4.4 million as of 31 December 2020G to SAR 9.4 million as of 30 June 2021G, mainly due to timing differences as most of these advance payments were settled in the following month (July).

**Lease Obligations**

Lease obligations decreased from SAR 3.8 million on 31 December 2020G to SAR 1.3 million as of 30 June 2021G, due to depreciation expenses as was coupled with the absence of additions during the six-month period ending in 2021G.

**Provision for Zakat and Income Tax**

The provision for Zakat and tax decreased from SAR 24.6 million as of 31 December 2020G to SAR 18.7 million as of 30 June 2021G, mainly due to the settlement of Zakat and tax related to the previous year 2020G.

**Tawarruq Financing Facilities**

The Tawarruq facilities mainly relate to financing facilities from the Arab National Bank. The Company has developed a strategy to take advantage of facilities from other lenders to reduce dependence on ANB. Tawarruq financing facilities decreased from SAR 2.8 billion during the period 31 December 2020G to SAR 2.7 billion during the period 30 June 2021G, due to the decrease in withdrawals coupled with repaid amounts of SAR 139.1 million mainly related to portfolio sales.

### End of Service Benefit Obligation

End of service benefits are calculated based on an independent actuarial study in accordance with International Accounting Standard 19 and in accordance with the laws and regulations of the Ministry of Labor in the Kingdom of Saudi Arabia. The end-of-service indemnity obligation increased from SAR 8.4 million as of 31 December 2020G to SAR 9.0 million as of 30 June 2021G in line with the natural increases granted to employees, in addition to the increase in working years for some company employees.

### Equity

The total equity settled at SAR 1.6 billion as of 31 December 2020G and 30 June 2021G, in line with the increase in retained earnings of SAR 52.9 million to cope with the increase in net income.

### Cash and Cash Equivalents

Table 6-62: Cash and cash equivalents for the Company as of 31 December 2020G and 30 June 2021G

| SAR '000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Cash in hand | 22 | 22 |
| Current accounts with the bank | 142,306 | 107,587 |
| **Total** | **142,328** | **107,609** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Cash and cash equivalents decreased from SAR 142.3 million as of 31 December 2020G to SAR 107.6 million as of 30 June 2021G. This decrease is mainly due to a decrease in withdrawals (SAR -131.6 million) along with an increase in payments (SAR +40.6 million). The Company also purchased property and equipment in the amount of SAR 551 thousand (additions), in addition to investing in intangible assets in the amount of SAR 148 thousand during the period ending on 30 June 2021G.

### Prepaid expenses and other assets, net

Table 6-63: Prepaid expenses and other company assets as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Insurance claims payable for death in finance lease contracts, net | 34,459 | 35,671 |
| Receivable value added tax | 12,412 | 8,324 |
| Legal Claims | 8,863 | 7,513 |
| Advance tax | 3,850 | 1,116 |
| Prepaid Finance Facility Fee (GIB) | 3,511 | 3,087 |
| Due from the Real Estate Development Fund | 2,882 | 1,294 |
| Prepaid software maintenance | 1,098 | 940 |

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Advance Finance Facility Fee (International Finance Corporation) | 1,097 | 940 |
| Prepaid insurance | 1,092 | 1,595 |
| Saudi Company Registration Fee for Registration of Financial Lease Contracts | 419 | 209 |
| Employee advances and receivables | 133 | 129 |
| Prepaid interest expense - IFC | - | - |
| Advance rent | - | - |
| Other | 1,101 | 925 |
| **Total** | **70,984** | **61,873** |
| Provision for expected credit losses from insurance claims due on passive (Ijarah) contracts | - | - |
| Provision for Legal Claim | (3,213) | (3,213) |
| **Total** | **67,771** | **58,661** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Insurance claims payable for death in lease contracts, net consist of:

Table 6-64: Insurance claims due on death cases in the Company's lease contracts as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Insurance claims payable for death in rental contracts | 49,854 | 50,805 |
| Provision for expected credit losses | (15,395) | (15,134) |
| **Insurance claims payable for death in lease contracts, net** | **34,459** | **35,671** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

### Insurance Claims Payable for Death in Finance Lease Contracts

Insurance claims payable for death in finance lease contracts relate to insurance claims related to deceased customers. The Company closes the loan when the Company is notified of the death case and the investment due in the finance lease is transferred to insurance claims entitlements. When the insurance claim is settled, the Company transfers the title deed of the property to the family of the deceased client.

Insurance claims payable in cases of death in Finance Lease Contracts increased from SAR 34.5 million as of 31 December 2020G to SAR 35.7 million as of 30 June 2021G, mainly due to new deaths during the six-month period ending on 30 June 2021G.

**Value Added Tax Receivables**

VAT Receivables relate to the amount due from the Ministry of Housing in accordance with the Real Estate Development Fund support program to recover the amount of VAT for first-time homeowners. The Company had previously paid and recovered value-added tax from the Ministry of Housing. This has changed after the implementation of the real estate transaction tax instead of the value added tax in October 2020G, where the property is registered directly with the General Authority of Zakat and Income and the amount of value added tax is waived directly for the requests of the home owner for the first time. The VAT account is amortized when the balances due are received.

VAT receivables decreased from SAR 12.4 million as of 31 December 2020G to SAR 8.3 million as of 30 June 2021G as a result of collections from the Ministry of Housing, which are made on a quarterly basis. This was coupled with the introduction of the real estate transaction tax in October 2020G, which led to a decrease in the value-added tax refunds owed to the Company.

**Legal Claims**

Legal claims relate to claims under settlement. Legal claims decreased from SAR 8.9 million as of 31 December 2020G to SAR 7.5 million as of 30 June 2021G due to the settlement of one legal case.

**Advance Tax**

The advance tax relates to payments made on a quarterly basis based on the Company's income in the previous year and in accordance with the Income Tax Law for Companies with Foreign Contributions.

The submitted tax decreased from SAR 3.9 million as of 31 December 2020G to SAR 1.1 million as of 30 June 2021G. This decrease is due to the settlement of Zakat and income tax amounts related to the fiscal year 2020G in the six-month period ending in 2021G.

**Prepaid Finance Facility Fee (GIB)**

The prepaid finance facility fee relates to the unamortized amount of the fee provided in accordance with the agreement with GIB. The prepaid finance facility fee relates to the unamortized amount of the fee provided in accordance with the agreement with GIB. The fees for prepaid financing facilities decreased from SAR 3.5 million as of 31 December 2020G to SAR 3.1 million as of 30 June 2021G in line with the amortization of these fees over the period of the facility.

**Due from the Real Estate Development Fund**

The receivable from the Real Estate Development Fund relates to down payments for real estate made by the Company in advance in accordance with the Real Estate Development Fund's initiative to encourage home ownership by subsidizing down payments. Payments made on behalf of clients are refunded from the Real Estate Development Fund.

The receivable from the Real Estate Development Fund decreased from SAR 2.9 million as of 31 December 2020G to SAR 1.3 million as of 30 June 2021G as a result of collections from the Real Estate Development Fund in the six-month period ending in 2021G, as this was part of the Company's efforts to improve the speed of collection.

**Prepaid Software Maintenance**

Prepaid software maintenance costs relate to annual maintenance contracts with system vendors. Maintenance for prepaid programs decreased from SAR 1.1 million as of 31 December 2020G to SAR 940 thousand as of 30 June 2021G as a result of the monthly Depreciation of expenses provided for programs, services, and fixed-period subscriptions.

**Advance Finance Facility Fee (International Finance Corporation)**

The prepaid finance facility fee relates to the unamortized balance of the fee provided in accordance with the agreement with the International Finance Corporation.

The fees for prepaid financing facilities (International Finance Corporation) decreased from SAR 1.1 million as of 31 December 2020G to SAR 940 thousand as of 30 June 2021G as a result of amortizing the prepaid fees.

**Prepaid Insurance**

The Company pays the premium in advance on a monthly basis based on the projected portfolio for the upcoming month. This is due to the relatively high frequency of payments; thus, prepaid insurance is largely dependent on the timing of payment.

The prepaid insurance increased from SAR 1.1 million as of 31 December 2020G to SAR 1.6 million as of 30 June 2021G as a result of the timing of payment of the insurance premium related to medical insurance during the period.

**Saudi Company Registration Fees for the Registration of Finance Lease Contracts**

The registration fees of the Saudi Company for registration of Finance Lease Contracts decreased from SAR 419 thousand as of 31 December 2020G to SAR 209 thousand as of 30 June 2021G due to the monthly Depreciation of the service provided by the Company.

**Employee Advances and Payables**

Staff advances and payables remained relatively stable at SAR 130 thousand during the historical period from 31 December 2020G and 30 June 2021G.

**Other**

Other advances relate to prepaid interest, processing and appraisal fees.

Other advance payments decreased from SAR 1.2 million as of 31 December 2020G to SAR 1.0 million as of 30 June 2021G due to the amortization of appraisal and administrative expenses.

**Legal Claim Provision**

The provision for a legal claim relates to the provision for ongoing legal cases. The legal claims provision remained stable at SAR 3.2 million as of 31 December 2020G and 30 June 2021G.

Table 6-65: Related parties to the Company as of 31 December 2020G and 30 June 2021G

| Name | Relationship |
|---|---|
| Arab national Bank | Shareholder |
| Dar Al Arkan Real Estate Development Company | Shareholder |
| International Finance Corporation | Shareholder |
| Kingdom of Installment Trading Company | Shareholder |
| Tharawat Asset Real Estate Company | Sister company |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Following are the transactions that took place with related parties during the year:

Table 6-66: Transactions that took place with related parties to the Company as on December 31, 2020 and June 30, 2021

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Tawarruq Financing Burdens - Arab National Bank | 62,159 | 24,027 |
| Purchased housing unit (Dar Al-Arkan Company) | 16,836 | 12,847 |
| Service fee, net | 7,298 | 2,857 |
| Burdens of Tawarruq Financing - International Finance Corporation | 6,317 | 1,929 |
| Fees for establishing deferred contracts | 212 | 62 |
| Rent charged from a sister company | 2,180 | 1,090 |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

The details of related party balances included in the statement of financial position as of December 31 are as follows:

Table 6-67: Details of related party balances included in the statement of financial position as on December 31, 2020 and June 30, 2021

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Loan received from a shareholder - Arab National Bank | 1,832,299 | 1,799,877 |
| Loan received from a shareholder - International Finance Corporation | 140,785 | 125,145 |
| Fees for establishing deferred contracts | 22,028 | 20,246 |

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Prepaid Finance Facility Fee (International Finance Corporation) | 1,097 | 940 |
| Due from a related party related to service fees (Arab National Bank) | 633 | 1,180 |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

**Senior Management Staff Remuneration**

Senior management personnel are the persons who have the authority and are responsible for planning, directing and controlling the activities of the Company. Senior management personnel consist of members of the Board of Directors (including executive and non-executive members of the Board of Directors) and selected key employees who meet the criteria set out above.

Close family members of senior management personnel are those family members who are expected to influence or be subject to the influence of senior management personnel when they interact with the Company. Close family members may include local partners, children of senior management, children of the local partner of senior management, parents, grandparents, brothers, sisters, grandchildren and other dependents of senior management and the local partner of senior management.

The following are the details of the remuneration of the Company's senior management employees:

Table 6-68: Remuneration of the Company's senior management employees as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Salaries | 2,546 | 960 |
| Indemnity | 581 | 80 |
| Other allowances | 1,733 | 292 |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

**Investments in Finance Leases, Net**

Table 6-69: Investments in the Company's finance lease contracts as of 31 December 2020G and 30 June 2021G

The following is a statement of the movement in the provision for expected credit losses for investments as on 30 June 2021G:

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Minimum rental payments | | |
| Active leases | 6,486,242 | 6,358,411 |
| Inactive lease contracts | 180,698 | 232,696 |
| Total investments in finance leases | 6,666,941 | 6,591,106 |

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Deduct: unearned financing income | (2,385,372) | (2,308,542) |
| Investments in finance leases before impairment | 4,281,569 | 4,282,564 |
| deduct: Provision for expected credit losses | (82,430) | (71,056) |
| **Net investments in finance leases** | **4,199,139** | **4,211,508** |
| Deduct: Current Portion | (283,570) | (286,933) |
| Deduct: finance lease contract receivables | (42,285) | (45,973) |
| Non-current portion | 3,873,283 | 3,878,602 |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Table 6-70: Statement of movement in the expected credit losses provision for the Company as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Balance at the beginning of the year | 78,226 | 82,430 |
| Charged for the year, net | 4,204 | (11,374) |
| **Balance at the end of the year** | **82,430** | **71,056** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

The following table shows the credit quality of investments in finance lease contracts:

Table 6-71: The credit quality of investments in financial lease contracts as on June 30, 2021

| SAR'000 | Expected Credit Loss (ECL) over 12-months | Lifetime ECL that is not credit impaired | Lifetime ECL that is credit impaired | Total |
|---|---|---|---|---|
| Gross book value | 3,623,424 | 382,231 | 275,913 | 4,281,569 |
| Provision for expected credit losses | (2,155) | (13,008) | (67,267) | (82,430) |
| **Net book value** | **3,621,269** | **369,233** | **208,646** | **4,199,139** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Table 6-72: Credit quality of investments in financial lease contracts as of 31 December 2020G

| SAR'000 | Expected Credit Loss (ECL) over 12-months | Lifetime ECL that is not credit impaired | Lifetime ECL that is credit impaired | Total |
|---|---|---|---|---|
| Gross book value | 3,720,479 | 323,154 | 238,930 | 4,282,564 |
| Provision for expected credit losses | (2,562) | (10,952) | (57,541) | (71,056) |
| **Net book value** | **3,717,917** | **312,201** | **181,389** | **4,211,508** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

The following is the due date for the lease payments:

Table 6-73: Due date for the lease payments as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Within one year | 325,855 | 332,906 |
| Second Year | 292,272 | 294,646 |
| Third Year | 296,323 | 296,056 |
| Fourth year | 293,994 | 291,561 |
| Fifth year and beyond | 3,073,022 | 3,067,394 |
| **Total** | **4,281,569** | **4,282,564** |
| Credit losses | (82,439) | (71,056) |
| **Net investments in finance leases** | **4,199,138** | **4,211,508** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Net investment in finance lease contracts remained relatively stable at SAR 4.3 billion as of 30 June 2021G, due to the continuous increase in the Company's efforts to grow its portfolio despite the COVID-19 pandemic, which led to the creation of new contracts in the amount of SAR 464.7 million in fiscal year 2020G and SAR 337.6 million in the financial period ending on 30 June 2021G.

**Fees for Establishing Deferred Contracts**

Table 6-74: Fees for Establishing Deferred Contracts as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Fees for establishing deferred contracts | 22,028 | 20,246 |
| Minus: Current Portion | (2,654) | 2,513 |

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Non-current portion | 19,373 | 17,733 |
| The following is a statement of the movement in fees for establishing deferred contracts: | | |
| At the beginning of the year | 25,792 | 22,028 |
| Contract creation fees incurred and paid for the year | 212 | 149 |
| Fees for establishing contracts charged for the year | (3,976) | (1,931) |
| **At the end of the year** | **22,028** | **20,246** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

The deferred contract creation fee relates to the 2% commission fee payable when establishing loan contracts through the ANB channel. The deferred creation fee is subsequently amortized over the life of the loan. Loans arising from the Saudi Home Loans Company through its own channels amounted to 99% of the total portfolio during the fiscal year 2020G. The Company is witnessing a change in its portfolio to reduce the loans obtained through the Arab National Bank, which are considered old loans, as the Company has developed its operations to become more independent from the Arab National Bank and it is expected that the current balance will be amortized in the coming years.

**Other Properties**

Table 6-75: Other real estate of the Company as on 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| At the beginning of the year | 6,963 | 8,657 |
| Repossession during the year | 11,172 | 9,395 |
| Sold during the year | (4,622) | (4,868) |
| Impairment losses | (4,857) | (60) |
| **At the end of the year** | **8,657** | **13,123** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Other real estate relates to property that has been reacquired from clients through legal process or under mutual agreements between the client and the Company. The Company intends to resell these properties in order to convert them into net investment in finance lease contracts on its balance. These properties are revalued on an annual basis to estimate the market value before the property is financed.

Other real estate increased from SAR 8.7 million as of 31 December 2020G to SAR 13.1 as of 30 June 2021G due to reacquisitions during the year, which amounted to SAR 9.4 million. This was offset by real estate sold during the year (SAR - 4.9 million), which has been transferred to a net investment in a finance lease.

A decrease of SAR 4.9 million was recorded as of 31 December 2020G, due to the decrease in the market value of properties reacquired within other properties. An impairment loss of SAR 60 thousand was recorded in the six months period ending in 2021G. The market value of these properties is expected to recover in the future.

### Right of-Use-of Assets

Table 6-76: Right of-Use-of Assets as of 31 December 2020G and 30 June 2021G

| SAR'000 | Riyadh | Dammam | Jaddah | Total |
|---|---|---|---|---|
| **Right-of-use assets, December 31, 2020** | **2,108** | **398** | **1,299** | **3,806** |
| Additions during the year | - | - | - | - |
| Accumulated depreciation | (989) | (85) | (130) | (1,205) |
| **Right-of-use assets, June 30, 2021** | **1,119** | **313** | **1,169** | **2,601** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G
Right-of-use assets decreased from SAR 3.8 million as of 31 December 2020G to SAR 2.6 million as of 30 June 2021G as a result of applying IFRS 16 starting from 01 January 2019G, coupled with the absence of additions during the period. This decrease is also mainly due to depreciation with no additions during the period ending on 30 June 2021G. Right-of-use assets mainly relate to the Company's head office in Riyadh (SAR 1.1 million), in addition to branches in Jeddah (SAR 1.2 million) and Dammam (SAR 313 thousand).

### Property and Equipment

Table 6-77: Property and Equipment as of 31 December 2020G and 30 June 2021G

| SAR'000 | Leasehold Improvements | Cars | Furniture, Fixtures and Office Equipment | Computers | Works Underway | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| **Balance as of December 31, 2020** | **5,703** | **195** | **6,144** | **9,457** | **1,221** | **22,721** |
| Additions | 55 | - | 117 | 233 | 698 | 1,104 |
| Restatement | - | - | - | - | 1,073 | (1,073) |
| **Balance as of June 30, 2021** | **5,758** | **195** | **6,262** | **9,690** | **846** | **22,752** |
| Accumulated Depreciation | | | | | | |
| **Balance as of December 31, 2020** | **4,261** | **195** | **5,313** | **7,680** | **-** | **17,449** |
| Expense for the year | 171 | - | 121 | 353 | - | 645 |
| Disposals | - | - | - | - | - | - |

| SAR'000 | Leasehold Improvements | Cars | Furniture, Fixtures and Office Equipment | Computers | Works Underway | Total |
|---|---|---|---|---|---|---|
| **Balance as of June 30, 2021** | **4,432** | **195** | **5,434** | **8,033** | **-** | **18,094** |
| Net book value | | | | | | |
| **As of December 31, 2020** | **1,442** | **-** | **832** | **1,777** | **1,221** | **5,272** |
| **As of June 30, 2021** | **1,327** | **-** | **828** | **1,657** | **846** | **4,658** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

**Rental Property Improvements**

Improvements to leasehold properties relate to civil works and contract creation executed on leased properties. The net book value of improvements to rental properties decreased from SAR 1.4 million as of 31 December 2020G to SAR 1.3 million as of 30 June 2021G, mainly due to an increase in depreciation as well as a decrease in additions during the period.

**Vehicles**

Vehicles mainly relate to vehicles owned by the Company and vehicles used by the executive management of the Company. The net book value of the cars amounted to 0 as of 31 December 2020G and 30 June 2021G as a result of the complete depreciation of the asset in addition to the absence of additions during the period.

**Furniture, Fixtures and Office Equipment**

Office furniture, fixtures and equipment mainly relate to desks, chairs, tables, cabinets, sofas and other office equipment. The net book value of office furniture, fixtures and equipment decreased from SAR 832 thousand as on 31 December 2020G to SAR 828 thousand as of 30 June 2021G, mainly due to the decrease in the value of additions in the same period.

**Computers**

Computers mainly consist of computers, laptop computers, computer servers, and computer systems. The net book value of the computer decreased by SAR 1.8 million as on 31 December 2020G to SAR 1.6 million as of 30 June 2021G in line with the requirements of remote work as a result of the current Covid-19 pandemic, in addition to the additional requirements from the Saudi Central Bank to make improvements in the field of Information Technology.

**Work-in-Progress**

Work-in-progress represents the capital expenditure incurred to purchase computers and systems. The net book value of work in progress decreased from SAR 1.2 million as of 31 December 2020G to SAR 846 thousand as of 30 June 2021G, mainly due to the reclassification of some businesses to assets during the period.

### Intangible Assets

Table 6-78: Intangible Assets for the Company as of 31 December 2020G and 30 June 2021

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| **Cost** | | |
| Balance at the beginning of the year | 10,374 | 11,140 |
| Additions | 766 | 667 |
| **Balance at the end of the year** | **11,140** | **11,807** |
| **Accumulated amortization** | | |
| Balance at the beginning of the year | (7,217) | (8,640) |
| Expense for the year | (1,424) | (432) |
| **Balance at the end of the year** | **(8,640)** | **(9,073)** |
| **Net book value** | **2,500** | **2,735** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Intangible assets mainly relate to software and computer applications. The Company continues to update and modify the system in line with the constant change and emerging technologies. The net book value of intangible assets increased from SAR 2.5 million as on 31 December 2020G to SAR 2.7 million as on 30 June 2021G, mainly due to the increase in additions that amounted to SAR 667 thousand in the six-month period ending in 2021G that were primarily related to system and software upgrades, including cyber security. This was offset by an amortization in the amount of SAR 432 thousand.

### Accrued Costs and other Liabilities

Table 6-79: Accrued Costs and other Liabilities for the Company as of 31 December 2020G and 30 June 2021

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Staff related expenses | 7,193 | 9,925 |
| Right to Service Obligations | 775 | 325 |
| Legal and advisory fees payable | 549 | 533 |
| Provision for maintenance of financial lease contracts | 425 | 495 |
| Mediation fee payable | 58 | 95 |
| Insurance fees payable | - | 566 |
| Other | 327 | 1,162 |

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| **Total** | **9,326** | **13,100** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

### Staff Related Expenses

Employee related expenses consist of employee entitlements such as basic salaries, vacation entitlements and other employee related benefits. Expenses related to employees increased from SAR 7.2 million as on 31 December 2020G to SAR 9.9 million as of 30 June 2021G, where the accrued expenses represent 12 months for the period ending on 31 December 2020G, while they represent only 6 months for the period ended 30 June 2021G.

### Right to Service Obligations

The right to service obligations relate to the net effect of the expected future discounted cash flow from servicing SRC's off-balance sheet portfolio, in addition to the estimated future cost of the service. The Company made the calculation on a conservative basis, as it is the Company's first portfolio sale in exchange for service rights, which was made in November 2020G. The service right obligations decreased from SAR 775 thousand as of 31 December 2020G to SAR 325 thousand as of 30 June 2021G as a result of recalculating the net cash flows from the portfolio service revenues sold. The Company intends to amortize the right to service obligation until the end of fiscal year 2021G.

### Legal and Advisory Fees Payable

Legal and advisory fees payable relate to bills payable from external consulting services such as legal and Sharia services, cyber security, audit fees and others.

The legal and advisory fees due decreased slightly from SAR 549 thousand as of 31 December 2020G to SAR 533 thousand as of 30 June 2021G.

### Provision for Maintenance of Financial Lease Contracts

The finance lease maintenance provision relates to any customer claim related to property damage or construction defects. This provision relates to old contracts as the new contracts assign liability to the customer for any significant property damage. The provision for maintenance of financial lease contracts slightly increased from 425 thousand as on 31 December 2020G to SAR 495 thousand as of 30 June 2021G, in line with the actual cases brought against the Company.

### Brokerage Fee Payable

The brokerage fees due from ANB relate to minor additions to ANB's off-balance sheet portfolio during the historical period. The brokerage fees due increased from SAR 58 thousand on 31 December 2020G to SAR 95 thousand as of 30 June 2021G due to the fees owed to the Arab National Bank in line with the Company's attempts to reduce its dependence on the Arab National Bank.

### Insurance Fees Payable

The due insurance fees relate to the insurance premium due related to credit life insurance (Medgulf Insurance). The due insurance fees amounted to SAR 566 thousand as of 30 June 2021G. This is due to the accumulated insurance fees related to the due premiums related to credit life insurance, and the due insurance fees represent 12 months for the period ending on 31 December 2020G, while it represents only 6 months for the period ending 30 June 2021G.

### Other

Other costs relate mainly to marketing expenses accrued, appraisal fees payable, accrued murabaha and other banking fees. Other costs increased from SAR 327 thousand as on 31 December 2020G to SAR 1.2 million as of 30 June 2021G, mainly due to dues to the Saudi Refinancing Company amounting to SAR 1.0 million as of 30 June 2021G.

### Lease Obligations

Table 6-80: Lease Obligations for the Company as of 31 December 2020G and 30 June 2021

| SAR'000 | Riyadh | Dammam | Jaddah | Total |
|---|---|---|---|---|
| Undiscounted cash flow under lease terms | 6,540 | 1,116 | 2,500 | 10,156 |
| Lease commitments, January 1, 2020 | 3,869 | 700 | 1,362 | 5,930 |
| Additions during the year | 228 | - | - | 228 |
| Paid from lease obligations | (2,180) | (372) | - | (2,552) |
| Amortizing the discount | 205 | 31 | - | 236 |
| Lease Obligations, December 31, 2020 | 2,122 | 358 | 1,362 | 3,842 |
| Lease obligations, January 1, 2021 | 2,122 | 358 | 1,362 | 3,842 |
| Additions during the year | 0 | 0 | (63) | (63) |
| Paid from lease obligations | (2,063) | (128) | (235) | (2,426) |
| Amortizing the discount | 0 | 0 | 0 | 0 |
| **Lease obligations, 30 June 2021** | **59** | **231** | **1,064** | **1,353** |

Source: Management Information

Lease commitments amounted to SAR 3.8 million and SAR 1.4 million as of 31 December 2020 and 30 June 2021G, respectively, as a result of the application of IFRS 16 starting from 01 January 2019G. The present value of the leases has been calculated using an incremental borrowing rate of 5% over the lease term, and the lease liability is amortized on a straight line basis over the lease term.

### Provision for Zakat and Income Tax

Table 6-81: Provision for Zakat and Income Tax for the Company as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Balance at the beginning of the year | 27,978 | 24,645 |
| Zakat provision for the current year | 7,970 | 6,486 |
| Zakat provision for previous years | - | 914 |
| Income tax provision for the current year | 4,765 | - |
| Income Tax Adjustments | - | - |
| Paid during the year | (16,068) | (13,349) |
| **Balance at the end of the year** | **24,645** | **18,696** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

### Provision for Zakat and Income Tax

On 03 February 2021G, the Company received income tax assessments from the Zakat, Tax and Customs Authority for the years 2014G and 2015G amounting to SAR 914 thousand. The Company settled the assessment on 18 March 2021G. Provision for Zakat and income tax decreased from SAR 24.6 million as of 31 December 2021G to SAR 18.6 million as of 30 June 2021G. This is mainly due to the settlement of Zakat and tax for the previous year (Fiscal Year 2020G).

### Tawarruq Financing Facility

Table 6-82: Tawarruq Financing Facility as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Current Portion of the facility | 1,091,740 | 635,437 |
| Non-current portion of the facility | 1,714,657 | 2,108,199 |
| **Total excluding financing expenses** | **2,809,397** | **2,743,637** |
| Tawarruq financing fees payable | 13,487 | 3,244 |
| **Total with financing expenses** | **2,819,884** | **2,746,881** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

Table 6-83: Outstanding Balance of Tawarruq Financing Facility as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Arab national Bank | 1,832,300 | 1,799,877 |
| Gulf International Bank | 392,920 | 403,644 |
| International Finance Corporation | 140,785 | 125,145 |
| National Commercial Bank | 377,882 | 367,810 |
| Saudi Real Estate Refinance Company | 75,998 | 50,404 |
| **Total** | **2,819,884** | **2,746,881** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

The Company's financing facilities mainly relate to the Arab National Bank, but after the Saudi Central Bank issued a new directive clarifying a maximum of 5% of the capital for financing from any one loan provider, and since the Arab National Bank has relatively large facilities in addition to large receivables, the Company's financing strategy turned towards other lenders. The Company sought to diversify its financing facilities and reduce dependence on the Arab National Bank, which is also the main shareholder. It is important to note that the Company only had facilities previously with the Arab National Bank.

The balance of Tawarruq financing facilities decreased from SAR 2.8 billion as of 31 December 2020G to SAR 2.7 billion as of 30 June 2021G in line with the decrease in withdrawals, as this was coupled with repaid amounts of SAR 139.1 million mainly emanating from cash generated from portfolio sales.

Table 6-84: Details of the facilities and outstanding balances as of 30 June 2021G

| Due date | Party | Facility amount | Outstanding balance | Current portion | Non-current portion | The most important Securities, obligations, and financial Covenants |
|---|---|---|---|---|---|---|
| June 2021G | Arab national Bank | 500,000 | 217,337 | 8,694 | 208,643 | 1. The outstanding amount of the receivables collected for home financing, which comprise the pooled guarantee, shall cover a minimum of 105% of the outstanding balance of the customer's obligations towards the bank at any time.<br>2. Transferring the monthly salary of the beneficiaries of the financing provided by the Company.<br>3. The property must be utilized and used by the property owner<br>4. The property submitted to the bank as part of the security must be transferable directly without restrictions in the name of Al-Manzil Al-Mubarak Real Estate Investments Company |
| March 2022G | Arab national Bank | 500,000 | 34,514 | 34,514 | - | |
| June 2022G | Arab national Bank | 650,000 | 398,890 | 398,890 | - | |
| October 2023G | Arab national Bank | 500,000 | 359,678 | 15,986 | 343,692 | |
| October 2023G | Arab national Bank | 150,000 | 107,249 | 4,767 | 102,483 | |
| August 2020G | Arab national Bank | 206,697 | 162,051 | 6,614 | 155,437 | |
| January 2021G | Arab national Bank | 350,000 | 280,000 | 17,500 | 262,500 | |
| July 2023G | Arab national Bank | 400,000 | 240,158 | 12,779 | 227,379 | |
| **Total Arab national Bank** | | **3,256,697** | **1,799,877** | **499,743** | **1,300,134** | |

| Due date | Party | Facility amount | Outstanding balance | Current portion | Non-current portion | The most important Securities, obligations, and financial Covenants |
|---|---|---|---|---|---|---|
| January 2021G | Gulf International Bank | 300,000 | 166,200 | 18,222 | 147,978 | 1. The ratio between the total liabilities and the total net equity of shareholders shall not exceed 1.0: 4.0<br>2. The ratio between total current assets and total current liabilities shall not be less than 1.0: 1.0<br>3. The net material rights of the shareholders shall not be less than 800,000,000 (only eight hundred million Saudi riyals only).<br>4. The annual distributed profits should not exceed the equivalent of (70%) of the net income generated for that year<br>5. The financing coverage ratio to the pledged assets shall not be less than (80%) for current contracts and the new contracts, and the financing coverage ratio to the pledged assets shall not be less than (70%) or stipulated by the Saudi Arabian Central Bank, whichever is greater. |
| July 2023G | Gulf International Bank | 150,000 | 25,000 | 1,111 | 23,889 | |
| June 2025G | Gulf International Bank | 415,000 | 212,444 | 15,111 | 197,333 | |
| **Total Gulf International Bank** | | **865,000** | **403,644** | **34,444** | **369,200** | |
| September 2034G | National Commercial Bank | 282,075 | 257,888 | 14,104 | 243,784 | 1. The coverage of receivables shall not be less than 117% of the total financing amount<br>2. The financial leverage shall not exceed 4:1<br>3. The dividend distribution shall not exceed 50% of the net profits<br>4. Submit audited financial statements within 90 days of a new year<br>5. Submit a quarterly report on the performance of receivables and share it with the second party<br>6. Retaining 5% as a reserve balance from the process of using to the extent of facilitation<br>7. A reliable mortgage of real estate instruments according to the attached document, as well as a reliable mortgage of the assets of the receivables that were assigned to the National Commercial Bank. |
| November 2034G | National Commercial Bank | 50,603 | 46,808 | 2,530 | 44,277 | |
| January 2035G | National Commercial Bank | 67,322 | 63,115 | 3,366 | 59,748 | |
| **Total National Commercial Bank** | | **400,000** | **367,810** | **20,000** | **347,810** | |

| Due date | Party | Facility amount | Outstanding balance | Current portion | Non-current portion | The most important Securities, obligations, and financial Covenants |
|---|---|---|---|---|---|---|
| June 2021G | Saudi Real Estate Refinance Company | 100,000 | 50,404 | 50,404 | - | The customer undertakes to ensure that his financial position will remain from the date of this agreement as long as there is any amount outstanding under any of the usage documents or any obligation in force |
| June 2025G | International Finance Corporation | 187,500 | 125,145 | 31,250 | 93,895 | 1. Equity to assets ratio of not less than 25%<br>2. Exposure ratio to an economic group not more than 15%<br>3. Large total exposure of no more than 400%<br>4. A related party exposure rate of no more than 15%<br>5. Open credit exposure not more than 25%<br>6. Total foreign exchange risk ratio is not more than 10%<br>7. Foreign exchange risk ratio of a single currency does not exceed 10%<br>8. A profit rate risk ratio of not less than -10% and not more than 10%<br>9. Total profit rate risk ratio not less than -20% and not more than 20%<br>10. Foreign exchange maturity gap ratio of not less than -150%<br>11. Combined negative maturity gap of not less than -300%<br>12. Percentage of fixed assets in addition to equity investments of not more than 35%<br>13. The percentage of non-performing lease receivables is less than or equal to 5% of the total lease receivables |
| **Total** | | **4,809,197** | **2,746,881** | **635,842** | **2,111,039** | |

Source: Management Information

**Indemnity**

Table 6-85: Amounts Recognized in the Statement of Financial Position and Movements in Liabilities as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Defined benefit obligations at the beginning of the year | 9,377 | 8,372 |
| Current service cost | 1,595 | 759 |
| Interest cost on defined benefit obligations | 292 | 89 |
| Benefits paid/accrued to members who terminated their membership during the year | (2,031) | (330) |
| Actuarial (gains) / losses from the obligation | (861) | 135 |
| **Defined benefit obligations at the end of the year** | **8,372** | **9,026** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

The defined benefit obligations at the end of the year increased from SAR 8.4 million as of 31 December 2020G to SAR 9.0 million as of 30 June 2021G. This is due to the annual increases granted to employees, in addition to the increase in the years of work of some of the Company's employees.

Table 6-86: Amounts charged to the income statement as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Current service cost | 1,595 | 395 |
| Interest cost on defined benefit obligations | 292 | 53 |
| Cost recorded in the income statement | 1,887 | 448 |
| Actuarial (gains) / losses on the obligation recognized in other comprehensive income | (861) | 9 |
| **Total defined benefit costs during the year** | **1,026** | **457** |

Source: Management Information

Table 6-87: Re-measurement recognized in other comprehensive income as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 31 June 2021 (Non audited) |
|---|---|---|
| Loss from change in financial assumptions | 142 | (31) |
| Earnings due to change in demographic assumptions | (496) | - |

| SAR'000 | As at 31 December 2020 (Audited) | As at 31 June 2021 (Non audited) |
|---|---|---|
| Loss/(profit) from change in experience assumptions | (507) | 40 |
| **Actuarial remeasurement of defined benefit obligations** | **(861)** | **9** |

Source: Management Information

Table 6-88: Basic actuarial assumptions in relation to employee benefit plans as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 31 June 2021 (Non audited) |
|---|---|---|
| Discount rate | 1.70% | 1.95% |
| Expected rate of salary increment | 5.00% | 5% |
| Normal retirement age | 60 | 60 |

Source: Management Information

The discount rate was increased during the first six months of 2021G to 1.95% to reflect the current market returns of the sovereign bonds, taking into account the average duration of the defined benefit obligations for a period of 7 years. While the expected rate of increase in salaries settled at 5%. Assumptions regarding future mortality are determined based on actuarial advice, based on published statistics and experience in the region.

Table 6-89: Statement of eligibility for the defined benefit obligation as of 31 December 2020G and 30 June 2021G.

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Weighted average the term of maturity of defined benefits | 7.4 | 7.4 |
| **Time Distribution of Benefit Payments:** | | |
| First year | 929 | 997 |
| Second Year | 1,473 | 1,591 |
| Third Year | 981 | 1,058 |
| Fourth year | 969 | 1,061 |
| Fifth year | 1,033 | 1,127 |
| From 6 to 10 years | 5,515 | 6,671 |

Source: Management Information

Table 6-90: Impact of Evaluation of Defined Benefit Obligations as of 31 December 2020G and 30 June 2021G

| SAR'000 | As at 31 December 2020 (Audited) | As at 30 June 2021 (Non audited) |
|---|---|---|
| Discount rate +0.5% | (310) | 8,703 |
| Discount rate -0.5% | 310 | 9,371 |
| Expected salary increment rate +0.5% | 252 | 9,305 |
| Expected salary increment rate -0.5% | (252) | 8,761 |

Source: Management Information

**Possible Obligations and Commitments**

During the course of its normal activities, the Company faces some lawsuits and other claims related to the nature of its activities. However, it is not expected that the existing cases will result in any material claims as of the date of the financial statements.

## 6-3-3 Statement of Cash Flows

Table 6-91: Statement of cash flows for the six-month period ending on 30 June 2020G and 30 June 2021G

| SAR'000 | Six-month period ending June 30, 2020 (Non audited) | Six-month period ending June 30, 2021 (Non audited) |
|---|---|---|
| Operational activities | | |
| Net income before Zakat and income tax | 33,701 | 66,529 |
| Adjustments to match net profit to net cash generated from operating activities: | | |
| Depreciation and amortization | 2,831 | 2,219 |
| Amortization of fees for establishing deferred contracts | 1,919 | 1,844 |
| Provision for expected credit losses | 15,037 | (11,628) |
| Provision for employees' end of service benefits | 944 | 849 |
| Financing costs for a lease Obligations | 162 | 191 |
| **Net (increase) / decrease in operating assets:** | **(4,168)** | **3,354** |
| Prepayments and other assets, net | 62 | (547) |
| Due from related parties | (13,670) | (10,204) |
| Advance payments to property owners | (89,215) | (5,528) |
| Investments in finance leases | - | (4,672) |

| SAR'000 | Six-month period ending June 30, 2020 (Non audited) | Six-month period ending June 30, 2021 (Non audited) |
|---|---|---|
| Net increase / (decrease) in operating liabilities: | | |
| Accounts Payable | 4,141 | (1,889) |
| Accrued expenses and other liabilities | 1,021 | 3,774 |
| Advance rent payments | 5,221 | 4,970 |
| Net cash generated from operating | (36,842) | 55,339 |
| Zakat and income tax paid | - | (13,349) |
| Paid severance pay | (624) | (330) |
| Paid deferred contract creation fee | (164) | (62) |
| **Net cash generated from (used in) operating activities** | **(37,630)** | **41,599** |
| Investment activities | | |
| Purchase of property and equipment | (1,353) | (551) |
| Purchase of intangible assets | (23) | (148) |
| **Net cash used in investing activities** | **(1,375)** | **(698)** |
| Financing activities | | |
| Additions to Tawarruq Financing Facility | 151,361 | 103,244 |
| Paid from Tawarruq Financing Facility | (74,434) | (176,247) |
| Paid from the principal part of the lease obligation | (2,366) | (2,617) |
| **Net cash generated from (used in) financing activities** | **74,561** | **(75,620)** |
| **Net increase / (decrease) in cash and cash equivalents** | **35,556** | **(34,719)** |
| Cash and its equivalent at the beginning of the year | 54,200 | 142,328 |
| **Cash and cash equivalents at the end of the year** | **89,756** | **107,609** |

Source: The interim condensed (unaudited) financial statements for the six-month period ended June 30, 2021G

### Net Cash Generated from Operating Activities

Net cash from operating activities increased from cash in use in the amount of SAR 37.6 million in the six-month period ending on 30 June 2020G to cash generated in the amount of SAR 41.6 million in the six-month period ending on 30 June 2021G, mainly due to lower payments to property owners. (SAR -83.7 million) as well as an increase in net income before Zakat and income tax (SAR +32.8 million). This was also offset by an increase in the cost of financing. This was also offset by an increase in the portfolio of contracts sold to the Saudi Real Estate Refinancing Company.

**Net Cash Used in Investing Activities**

The net cash used in investment activities decreased from (SAR - 1.3) million in the six-month period ending on 30 June 2020G to (SAR -698) thousand in the six-month period ending on 30 June 2021G, due to the decrease in purchases of property and equipment due to the COVID-19 pandemic. This was offset by a partial increase in purchases of intangible assets.

**Net Cash (Used) / Generated from Financing Activities**

The net cash used in financing activities decreased from SAR 74.5 million in the six-month period ending on 30 June 2020G to (SAR -75.6) million in the six-month period ending on 30 June 2021G, as a result of the Company paying and settling the installments of the facilities due on loans with banks, which includes part of the deferred installments with banks. The Company has repaid the Tawarruq financing facility in the amount of SAR 176.2 million and the principal portion of the lease commitment in the amount of SAR 2.6 million. The payments were offset by additions to the Tawarruq financing facilities (SAR +103.2 million) in line with the increase in the number of loans created during the period.

7

# Dividends Policy

# 7- Dividends Policy

Without prejudice to the provisions of Article (26) of the Implementing Regulations of the Finance Companies Control Law, the Company's annual net profits are distributed after deducting all general expenses and other costs, including Zakat and income tax, as follows:

- 10% of the net profit shall be set aside to form a statutory reserve for the Company. Such allocations to the statutory reserve may be discontinued by the Ordinary Assembly when the statutory reserve amounts to 30% of the Company's paid up share capital.
- The Ordinary General Assembly may, upon request of the Board of Directors, set aside a percentage of the annual net profits to form an additional reserve to be allocated for a specific purpose or purposes decided by the General Assembly.
- The Ordinary General Assembly may resolve to set aside other reserves, to the extent that serves the interest of the Company or ensures the distribution of as stable a dividend as possible to the Shareholders.
- From the remainder, a portion representing 5% of the Company's paid-up share capital shall be distributed among the Shareholders.
- Subject to the provisions stipulated in Article (twenty-second) of the Company's Articles of Association, after the foregoing, a percentage not exceeding 10% (ten percent of the remainder) shall be allocated to the Board of Directors' remuneration, provided that the entitlement to this remuneration is proportional to the number of sessions attended by the member.
- The remainder is then distributed to the shareholders as a share in the profits or transferred to the retained earnings account.

**Earnings entitlement:**

The shareholder shall be entitled to his share of the profits in accordance with the decision of the General Assembly issued in this regard. The decision shall indicate the maturity date and the date of distribution. The eligibility for profits shall be for the owners of shares registered in the shareholders' records at the end of the day specified for entitlement.

**Dividends:**

The Company did not distribute dividends for the fiscal years ending on December 31, 2018, 2019 and 2020. The Company also did not distribute dividends for the six-month period ending on June 30, 2021.

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# Use of the Offering Proceeds

# 8- Use of the Offering Proceeds

The total proceeds of the offering are estimated at about six hundred million (600,000,000) Saudi riyals, of which an amount estimated at seventeen million two hundred thousand (17,200,000) Saudi riyals will be paid to settle all expenses related to the offering, including the fees of the financial advisor, the Underwriting manager, the institutional underwriting registry manager, the underwriter, and the legal advisor, the necessary professional financial care advisor, the market study advisor, the chartered accountant, other advisors, and the Receiving Agents , as well as marketing, printing and distribution fees, and other fees and expenses related to the offering process. The net proceeds of the offering, estimated at about five hundred and eighty two million and eight hundred thousand (582,800,000) Saudi riyals will return to the selling shareholders in proportion to the number of the Offer Shares that will be sold by each of them in the offering. The Company will not receive any part of the proceeds of the offering. The selling shareholders will bear all fees, expenses and costs related to the offering.

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# Capitalization and Indeptedness

# 9- Capitalization and Indebtedness

Existing shareholders own all the Company's shares prior to the offering. After completing the offering process, they will collectively own (70%) of the Company's shares.

The following table shows the Company's capitalization as it appears in the Company's consolidated financial statements as of 31/12/2018G, 31/12/2019G and 31/12/2020G. Note that the following table should be read with the relevant financial statements, including the notes attached to them and contained in Section (19) "**Financial Statements and Auditor's Report**".

Table 9-1: Capitalization of the Company's Capital and Indebtedness:

| (SAR'000) | Fiscal year ended 31 December | | |
|---|---|---|---|
| | 2018G | 2019G | 2020G |
| Financing | 2,824,238 | 2,801,923 | 2,819,884 |
| Capital | 1,000,000 | 1,000,000 | 1,000,000 |
| Statutory reserve | 92,182 | 97,649 | 106,160 |
| Retained earnings | 539,139 | 517,892 | 447,173 |
| Total Shareholders' Equity | 352,950 | 402,145 | 478,749 |
| Total capitalization (total financing + total shareholders' equity) | 5,594,593 | 5,757,857 | 6,174,169 |
| **Total Financing / Total Capitalization** | **85,49%** | **87,45%** | **88,89%** |

Source: The Company and the group's audited consolidated statements of financial position for the fiscal years ending on December 31, 2018, 2019 and 2020

The members of the Board of Directors acknowledge the following:

- None of the Company's shares are subject to any option rights.
- The Company does not have any debt instruments as of the date of this prospectus.
- The Company's balance and cash flows are sufficient to cover its expected cash needs for working capital and capital expenditures for a period of at least twelve (12) months after the date of this prospectus.

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# Experts Statement

# 10- Experts Statement

All consultants whose names appear on page (ix,x) have provided their written consent to indicate their names, addresses and logos and to publish their statement in this prospectus, and none of them has withdrawn their consent until the date of this prospectus, and all consultants and their employees are part of the work team that provides services to the Company or their relatives do not own any shares in the Company and none of them have any interest in the Company as of the date of this prospectus, which may affect their independence.

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# Declarations

# 11- Declarations

As of the date of this prospectus, the members of the Board of Directors acknowledge the following:

- None of the members of the Board of Directors, senior executives, or the Secretary of the Board of Directors have at any time declared bankruptcy or been subject to bankruptcy proceedings.
- No insolvency or bankruptcy has been announced during the previous years for a company in which any of the members of the Board of Directors or any of the senior executives or the Secretary of the Board of Directors was appointed to an administrative or supervisory position.
- Except as described in Section (12-10) ("**Transactions and Contracts Agreements with Related Parties**"), members of the Board of Directors, any of the Senior Executives, the Secretary of the Board, or any of their relatives or affiliates have no interest in any contracts or existing arrangements, whether written or oral, or contracts or arrangements under study or to be concluded with the Company up to the date of this prospectus.
- Except as described in Section 5-7 ("**Composition of the Board**") and Section (12-10) ("**Transactions and Contracts Agreements with Related Parties**"), members of the Board of Directors, any senior executives, Board Secretary, or Any of their relatives has any shares or interest of any kind in the Company, or in the Company's debt instruments, and the Company may not provide a cash loan of any kind to members of the Board of Directors or guarantee any loan contracted by one of them.
- That the Company has fulfilled all the conditions specified for registration, offering and listing and all other relevant requirements stipulated in the Capital Market Law, and the Rules on the Offer of Securities and Continuing Obligations. There are no other incidents that could affect the application for registration and offering of securities that are not included in this prospectus
- The Board of Directors has included all the information required to be included in this prospectus as required by the rules of offering securities and continuing obligations.
- This prospectus includes statements prepared by experts, and the Company confirms that those experts have given their written consent to use their names and publish their logos and statements in the prospectus in its form and text as contained in the prospectus and that they have not withdrawn that consent until the date of this prospectus.
- No commissions, discounts, brokerage fees or any non-cash compensation were granted by the Company during the three years preceding the date of submitting the application for registration and offering of securities in connection with the issuance or offering of any securities.
- There was no interruption in the Company's business that could affect or have had a noticeable impact on their financial positions during the last twelve (12) months.
- There is no intention to make any fundamental change in the nature of the Company's activity.
- Board members will not participate in voting on decisions related to business and contracts in which they have a direct or indirect interest.
- There was no fundamental negative change in the financial and commercial position of the Company during the three years immediately preceding the date of submitting the application for registration and offering the securities subject to this prospectus, in addition to the period covered by the certified accountants' report until the date of the approving of this prospectus.
- There are no other arrangements that involve employees in the Company's capital.
- The Company does not own any securities (contractual or otherwise) or any of the assets whose value is subject to fluctuations, which negatively and fundamentally affects the assessment of the financial position.
- Except as disclosed in Section 2 ("**Risk Factors**"), the Company is not aware of any information relating to any governmental, economic, financial, monetary, political policies or any other factors that have influenced or could materially affect (directly) or indirectly) its operations.
- Except as disclosed in Section No. (2) ("**Risk Factors**"), the Company is not aware of any seasonal factors or economic cycles related to the activity that may have an impact on the Company's business or financial position.
- The information listed in Section 3 ("**Market and Sector Overview**") obtained from external sources represents the most recent information available from its relevant source.

- The Company's insurance policies provide insurance coverage with sufficient limits for the Company's conduct of its business, and the Company periodically renews insurance policies and contracts to ensure the existence of insurance coverage on an ongoing basis.
- All contracts and agreements that the Company believes to be important or essential, or that may affect the investors' decisions to invest in the Offer Shares, have been disclosed, and there are no other substantial contracts or agreements that have not been disclosed.
- All terms and conditions that may affect the investors' decisions to invest in the Offer Shares have been disclosed.
- The selling shareholders will bear all the expenses and costs related to the offering, and these costs will be deducted from the proceeds of the offering, to include the fees of the financial advisor, fees of the underwriter, legal advisors, chartered accountants, market and sector study consultant, in addition to the fees of the recipients, the expenses of marketing, printing, distribution and other expenses related to the offering
- They have put in place procedures, controls and systems that will enable the Company to meet the requirements of the relevant laws, regulations, and instructions, including the Companies Law, the Capital Market Law and its Implementing Regulations, the rules for offering securities, continuing obligations and Listing Rules.
- All non-Saudi employees of the Company are under its sponsorship.
- The legal and beneficial ownership of the shares in the Company as of the date of this prospectus belongs to the persons whose names appear in section (5-2-1) ("**the current structure of the shareholders**") and the Board of Directors acknowledges that the ownership structure in the Company is compatible with the foreign investment system.
- All the increases in the Company's capital do not contradict with the laws and regulations in force in the Kingdom.
- Except as disclosed in Section No. (2) ("**Risk Factors**"), and to the best of their knowledge and belief, there are no other material risks that may affect the decision of potential investors to invest in the Offering Shares.
- Except for what was disclosed in Paragraph ("**Risks Associated with the Company's Inability to Obtain and Renew the Necessary Licenses, Permits and Certificates**") No. (2-1-6) and Section No. (12-6) ("**Government Licenses, Approvals and Certificates**"), the Company has all the basic licenses and approvals required to carry out its activities.
- Except as disclosed in Section 2-2-3 ("**RisksRisks related to Litigation Proceedings**") and Section 12-14 ("**Claims and Litigation**"), the Company is not a party to any existing disputes, litigations, lawsuits or investigations that could have a material impact on the Company's operations or financial position.
- Except as disclosed in Section No. (2) ("**Risk Factors**"), the Company has not issued any debt instruments, or obtained any term loans or any outstanding loans or debts.
- The Board of Directors acknowledges that there are no mortgages, rights or burdens on the Company's property as of the date of this prospectus.
- That the issuer -alone - has a working capital sufficient for a period of at least twelve (12) months immediately following the date of publication of this prospectus.
- None of the Company's shares are subject to any option rights.
- As of the date of this prospectus, the Company does not have a policy on research and development and the Company does not produce any products.
- The financial information contained in this prospectus and the audited financial statements for the fiscal years ending on 31 December of the fiscal year 2018G, 2019G and 2020G, and the preliminary audited statements for the six-month period ending on 30 June 2021G, and the accompanying notes, were prepared in accordance with the International Accounting Standards approved by the Saudi Organization for Charted and Professional Accountants (SOCPA), the audited financial statements of the Company have been prepared for the fiscal years ending on 31 December 2018G, 2019G and 2020G, and the preliminary audited statements for the six-month period ending on 30 June 2021G, and the notes attached thereto, in accordance with international accounting standards approved by the Saudi Organization for Charted and Professional Accountants (SOCPA) (IFRS) and amended by the Saudi Arabian Central Bank for accounting for Zakat and income tax, and reviewed by certified public accountants.
- The Company is able to prepare the required reports on time, according to the Implementing Regulations issued by the authority.

- Except for what was disclosed in Section No. (2) ("**Risk Factors**"), all necessary approvals have been obtained from the lenders to offer thirty percent (30%) of the Company's shares for public underwriting, so that the Company will be a public joint stock company.
- The Company is committed to all terms and conditions under the agreements concluded with donors for all loans, facilities and financing.
- The Company is committed to applying the systems, regulations and rules issued by the Central Bank of Saudi Arabia with regard to capital adequacy and enhancing risk coverage and reserve ratios on the statuary capital.
- The Company is committed to applying the rules for calculating the Zakat of financing activities issued by the decision of His Excellency the Minister of Finance No. (2215) dated 7/7/1440H. In addition to the above-mentioned declarations, the members of the Board of Directors acknowledge the following:
- The information and data contained in this prospectus obtained from other parties, including information obtained from the market study report prepared by the market and sector study consultant, can be relied upon, and there is no reason for the Company to believe that such information is substantially inaccurate in any way.
- The internal control systems and regulations have been prepared by the Company on a sound basis, as a written policy has been developed regulating conflict of interest and addressing potential conflict situations, which include misuse of company assets and misconduct resulting from dealings with related persons.
- In addition, the Company has ensured the integrity of the financial and operational systems and the application of appropriate control systems to manage risks in accordance with the requirements of the Corporate Governance Regulations. The members of the Board of Directors also annually review the Company's internal control procedures.
- The internal and accounting control and information technology systems are adequate and appropriate.
- Except as disclosed in Section (12-10) ("**Transactions and Contracts Agreements with Related Parties**"), there is no conflict of interest related to members of the Board of Directors regarding contracts or transactions concluded with the Company.
- All transactions with related parties described in Section (12-10) ("**Transactions and Contracts Agreements with Related Parties**"), including the determination of the financial consideration for the contract, were carried out in a regular and legal manner and on stm-length bases, similar to those with other third parties.
- The related party has submitted and will submit to the Authority all the documents required under the Capital Market Law and the Rules on Offering Securities and Continuing Obligations.
- As of the date of this prospectus and with the exception of what was mentioned in this Prospectus and section 5-11 ("**Conflict of Interests**") of this Prospectus, none of the members of the Board of Directors participated in any similar or competing activities with the Company, and the members of the Board of Directors undertake to abide by this statutory requirement in the future in accordance with Article 72 of the Companies Law and the Corporate Governance Regulations.
- It is not permissible for any member of the Board of Directors to have a direct or indirect interest in the business and contracts that are made for the Company's account without a license from the General Assembly.
- The Board members are obligated to notify the Board of their direct or indirect personal interests in the business and contracts that are made for the Company, provided that this is recorded in the minutes of the Board of Directors meeting.
- That all transactions with related parties will be conducted on a commercial basis, and all business and contracts with related parties will be voted on in the meetings of the Board of Directors - and if required by the regulation - or in the the Company's general assembly meeting, with the Board member abstaining from voting on decisions related to business and contracts that are done for the interest of the Company in which he has a direct or indirect interest, whether in the Board of Directors or the general assembly, in accordance with Article 71 of the Companies Law, and Part Six of Section Three of the Corporate Governance Regulations.
- The members of the Board of Directors and the CEO have no right to vote on the fees and remunerations granted to them.
- It is not permissible for members of the Board of Directors or any of the senior executives to borrow from the Company or to warrant the Company's guarantee on any loan obtained by any of the members of the Board of Directors.
- There are no mortgages, rights or burdens on the Company's property as of the date of this prospectus.

- The Company has not received any notification from the lenders stating that it has violated any of its commitments and obligations in accordance with the financing agreements until the date of this prospectus.
- That all the observations of the inspection tours were processed according to the agreement with the Saudi Central Bank, and it is not expected that there will be financial or non-financial burdens related to the Saudi Central Bank's observations as of the date of this prospectus.
- The Company does not have any commercial activity outside the Kingdom as at the date of this Prospectus.

**The Directors Undertake to:**

- Record all Board decisions and deliberations in the form of written minutes of meeting to be signed by them.
- Disclose the details of any transactions with related parties in accordance with the requirements of the Companies Law and the Corporate Governance Regulations.
- Comply with the provisions of Articles seventy-first, seventy-second and seventy-third of the Companies Law and Section Six of Chapter Three of the Corporate Governance Regulations.
- Present the internal governance regulation (the general framework for governance) that is compatible with the rules and regulations of the Capital Market Authority to the next General Assembly Meeting for a vote.
- Neither the Directors nor the CEO have the right to vote on the remuneration granted to them.
- Neither the Directors nor the CEO have the right to vote on a contract or proposal in which he has an interest.
- Neither the Board members nor any of the senior executives have any right to borrow from the Issuer, except for any loans granted as part of the Company's financing business

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# Legal Information

# 12- Legal Information

## 12-1 The Company

Saudi Home Loans Company is a Saudi closed joint stock company established according to the laws and regulations of the Kingdom of Saudi Arabia, under Commercial Registration Certificate No. 1010241934 dated 22/12/1428H (corresponding to 1/1/2008G), which is valid until 12/12/1444H (corresponding to 10/07/2023G), Ministerial Resolution No. (280/Q) dated 4/11/1428H (corresponding to 14/11/2007G), and the license of the Central Bank of Saudi Arabia No. 14/A Sh/201403 dated 27/04/1435H (corresponding to 27/2/2014G), and the General Investment Authority's License No. 102030072425-01, dated 23/07/1430H (corresponding to 16/07/2009G), and its registered address: Al Murabba, King Abdulaziz Road, PO Box 27072, Postal Code 11417, Riyadh, Kingdom of Saudi Arabia Saudi Arabia. The Company's capital is of one billion Saudi riyals (SAR 1,000,000,000) divided into one hundred million (100,000,000) fully paid ordinary shares, with a nominal value of ten (10) Saudi riyals per share.

The Company's capital is of one billion Saudi riyals (SAR 1,000,000,000) divided into one hundred million (100,000,000) fully paid ordinary shares, with a nominal value of ten (10) Saudi riyals per share. The Company is licensed by the Central Bank of Saudi Arabia under license number 14/A Sh/201403 dated 27/04/1435H (corresponding to 27/2/2014G), and the license was renewed for a period of five years ending on 26/02/1445H (corresponding to 11/09/2023G ) to perform the following activities: financing small and medium enterprises, financial leasing, consumer financing and credit card financing

Please refer to Section (4) - (Company and Nature of its Business).

## 12-2 Shareholders Structure

**Ownership Structure**

Table 12-1: This table shows ownership of shares in the Company and Selling Shareholders before and after the offering:

| Shareholder | Before Offering | | | | After Offering(1) | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Total Value | Direct Ownership Percentage (%) | Indirect Ownership Percentage (%) | No. of Shares | Total Value | Direct Ownership Percentage (%) | Indirect Ownership Percentage (%) |
| Arab National Bank | 40,000,000 | 400,000,000 | 40% | - | 28,000,000 | 280,000,000 | 28% | - |
| Dar Al Arkan Real Estate Development Company | 15,000,000 | 150,000,000 | 15% | - | 10,500,000 | 105,000,000 | 11% | - |
| Kingdom of Installment Trading Company | 9,000,000 | 90,000,000 | 9% | - | 6,300,000 | 63,000,000 | 6% | - |
| Yousef bin Abdullah Al Shelash | 8,000,000 | 80,000,000 | 8% | 0.59 | 5,600,000 | 56,000,000 | 6% | 0.42 |
| Tariq bin Mohammad Al Jarallah | 6,000,000 | 60,000,000 | 6% | 4.35 | 4,200,000 | 42,000,000 | 4% | 3.05 |
| Hethloul bin Saleh Al Hethloul | 6,000,000 | 60,000,000 | 6% | 0.67 | 4,200,000 | 42,000,000 | 4% | 0.47 |
| International Finance Corporation | 5,000,000 | 50,000,000 | 5% | - | 3,500,000 | 35,000,000 | 4% | - |
| Abdullatif bin Abdullah Al Shalash | 5,000,000 | 50,000,000 | 5% | | 3,500,000 | 35,000,000 | 4% | - |
| Inmaa Al Madaen Company | 4,000,000 | 40,000,000 | 4% | - | 2,800,000 | 28,000,000 | 3% | - |
| Daaim Al Khaleej Company | 2,000,000 | 20,000,000 | 2% | - | 1,400,000 | 14,000,000 | 1% | - |
| Public | - | - | - | - | 30,000,000 | 300,000,000 | 30% | - |
| **Total** | **100,000,000** | **1,000,000,000** | **100%** | **5.61%** | **100,000,000** | **1,000,000,000** | **94.39%** | **5.61%** |

Source: The Company

Details regarding shareholders' ownership are described in Section 5-2-1 ("**Current Shareholder Structure**").

(1) The above Ownership percentages are approximate

## 12-3 Subsidiaries

The Company Does not have any subsidiaries

## 12-4 Branches

The head office of the Company is located in the city of Riyadh, and the Company has two branches inside the Kingdom: Al-Khobar branch, which holds commercial registration number 2050109572, and practices its activity as a marketing center under the license of the General Investment Authority No. 10203007242501 dated 23/04/1438H. Jeddah branch, which holds commercial registration No. 4030289627, and practices its activity in real estate financing.

## 12-5 Company Investments

The Company owns 89,285 shares in the Saudi Company for the Registration of Financial Lease Contracts, at a value of 10 Saudi Riyals each, at an amount of 892,850 Saudi Riyals, at a rate of 2.38%.

It is a closed Saudi joint stock Company with commercial registration number 1010612415 dated 03/02/1439H (corresponding to 23/10/2017G) and its head office is located in the city of Riyadh. The Company's activity includes the registration of financial lease contracts and the amendments thereto, pursuant to the approval of the Saudi Central Bank No. 381000124076 dated 23/12/1438H (corresponding to 14/09/2017G)..

The following table summarizes the ownership structure of the Saudi Company for Registration of Financial Lease Contracts

Table 12-2: Ownership Structure of the Saudi Company for Registration of Financial Lease Contracts

| Shareholders | Number of shares | Nominal value of each share ( Saudi Riyals) | Share Value (SR) | Ownership Percentage[1] |
|---|---|---|---|---|
| Bidaya Home Finance | 89,315 | 10 | 893,150 | 2.381% |
| Riyad Bank | 89,285 | 10 | 892,850 | 2.380% |
| Saudi British Bank | 89,285 | 10 | 892,850 | 2.380% |
| Saudi ORIX Lease Financing Company | 89,285 | 10 | 892,850 | 2.380% |
| Ijarah Finance Company | 89,285 | 10 | 892,850 | 2.380% |
| National Commercial Bank | 89,285 | 10 | 892,850 | 2.380% |
| Al-Bilad Bank | 89,285 | 10 | 892,850 | 2.380% |
| Aljabr Finance Company | 89,285 | 10 | 892,850 | 2.380% |
| Al-Raedah Finance Company | 89,285 | 10 | 892,850 | 2.380% |

(1) The above Ownership percentages are approximate

| Shareholders | Number of shares | Nominal value of each share ( Saudi Riyals) | Share Value (SR) | Ownership Percentage[1] |
|---|---|---|---|---|
| Raya Finance Company | 89,285 | 10 | 892,850 | 2.380% |
| Arab National Bank | 89,285 | 10 | 892,850 | 2.380% |
| Nayifat Finance Company | 89,285 | 10 | 892,850 | 2.380% |
| Dar Al Tamleek Company | 89,285 | 10 | 892,850 | 2.380% |
| Lease Financing Company | 89,285 | 10 | 892,850 | 2.380% |
| Amlak International Real Estate Financing | 89,285 | 10 | 892,850 | 2.380% |
| Al Yusr Leasing and Financing Company | 89,285 | 10 | 892,850 | 2.380% |
| Banque Saudi Fransi | 89,285 | 10 | 892,850 | 2.380% |
| Gulf Cranes Company for Lease Financing | 89,285 | 10 | 892,850 | 2.380% |
| Al Rajhi Bank | 89,285 | 10 | 892,850 | 2.380% |
| Saudi Home Loans Company | 89,285 | 10 | 892,850 | 2.380% |
| Saudi Investment Bank | 89,285 | 10 | 892,850 | 2.380% |
| Ajal Financial Services Company | 89,285 | 10 | 892,850 | 2.380% |
| Deutsche Gulf Finance Company | 89,285 | 10 | 892,850 | 2.380% |
| Alinma Bank | 89,285 | 10 | 892,850 | 2.380% |
| Saudi Holandi Bank | 89,285 | 10 | 892,850 | 2.380% |
| Al Jazeera Bank | 89,285 | 10 | 892,850 | 2.380% |
| National Finance Company | 89,285 | 10 | 892,850 | 2.380% |
| Murabaha Marina Financing Company | 89,285 | 10 | 892,850 | 2.38% |
| Karnaf Finance Company | 89,285 | 10 | 892,850 | 2.38% |
| Al Jasriah Finance Company | 89,285 | 10 | 892,850 | 2.380% |
| Saudi Finance Company | 89,285 | 10 | 892,850 | 2.380% |
| Abdullatif Jameel United Real Estate Finance Company | 89,285 | 10 | 892,850 | 2.380% |
| Abdullatif Jameel United Finance Company | 89,285 | 10 | 892,850 | 2.380% |

(1) The above Ownership percentages are approximate

| Shareholders | Number of shares | Nominal value of each share ( Saudi Riyals) | Share Value (SR) | Ownership Percentage[1] |
|---|---|---|---|---|
| Gulf Finance Company | 89,285 | 10 | 892,850 | 2.380% |
| Tamweely International Company | 89,285 | 10 | 892,850 | 2.380% |
| Alamthal Finance Company | 89,285 | 10 | 892,850 | 2.380% |
| Osoul Modern Finance Company | 89,285 | 10 | 892,850 | 2.380% |
| Saudi Credit House Company | 89,285 | 10 | 892,850 | 2.380% |
| Tawkelat Financing Company | 89,285 | 10 | 892,850 | 2.380% |
| Arabian Tayseer Company | 89,285 | 10 | 892,850 | 2.380% |
| Saudi Fransi Lease Finance Company | 89,285 | 10 | 892,850 | 2.380% |
| Tamweel Aloula Company | 89,285 | 10 | 892,850 | 2.380% |
| **Total** | **3,750,000** | **-** | **37,500,000** | **100%** |

Source: The Company

## 12-6 Government Licenses, Approvals and Certificates

The Company (including its branches) has obtained several regulatory and operational licenses and certificates from the competent authorities, and these licenses and certificates are renewed periodically. The Board of Directors acknowledges that the company has obtained all the basic licenses and approvals required to conduct its activities, with the exception of some of the expired or unobtained operational licenses mentioned in Table (12-5), despite that the Company has submitted all the necessary requests to the competent authorities to obtain such licenses. The following table shows current licenses and certificates obtained by the Company:

**Key and operating licenses and approvals issued to the Company and its branches**

Table 12-3: Details of Commercial Registration certificates obtained by the Company:

| Location | Entity Type | Commercial Registration Number | Registration Date | Expiry Date |
|---|---|---|---|---|
| Riyadh, Kingdom of Saudi Arabia | Joint Stock Company | 1010241934 | 22/12/1428H (corresponding to 31/12/2007G) | 22/12/1444H (corresponding to 10/07/2023G) |
| Al-Khobar, Kingdom of Saudi Arabia | Branch | 2050109572 | 22/08/1437H (corresponding to 29/05/2016G) | 21/04/1445H (corresponding to 05/11/2023G) |
| Jeddah, Kingdom of Saudi Arabia | Branch | 4030289627 | 22/08/1437H (corresponding to 29/05/2016G) | 21/04/1445H (corresponding to 05/11/2023G) |

(1) The above Ownership percentages are approximate

Table 12-4: Details of statutory licenses and certificates obtained by the Company:

| Issuer | License Number | Purpose | Expiry Date |
|---|---|---|---|
| Chamber of Commerce | 191555 | Certificate of Subscription in the Chamber of Commerce and Industry in Riyadh | 22/12/1444H (corresponding to 10/07/2023) |
| Ministry of Investment | 10203002425-1 | Investment license | 25/04/1445H (corresponding to 08/11/2023G) |
| General Authority of Zakat, Tax and Income (GAZT) | 1110558398 | Zakat Certificate | 29/09/1443H (corresponding to 30/04/2022G) |
| (GAZT) | 300070572 | Value Added Tax Registration Certificate | N/A |
| General Organization for Social Insurance (GOSI) | 40403826 | GOSI Obligation Fulfillment Certificate | 10/02/1443H (corresponding to 17/09/2021G) |
| Ministry of Human Resources and Social Development | 20002106002157 | Saudization Certificate | 06/02/1443H (corresponding to 13/09/2021G) |
| Central Bank License | 14/A SH/201403 | License to Practice Real Estate Finance Activities in the Kingdom of Saudi Arabia | 25/04/1445H (corresponding to 09/11/2023G) |

Table 12-5: Operating licenses and approvals issued to the Company:

| License type | Purpose | License Number | Expiry Date | Issuer |
|---|---|---|---|---|
| Central Bank No-Objection Letter | Central Bank No-Objection Letter for the Company Offering in the Financial Market | 42057760 | N/A | Central Bank |
| Central Bank No-Objection Letter | No-Objection Letter to Sell Financing Assets to the Saudi Real Estate Refinancing Company | 42016279 | N/A | Central Bank |
| Central Bank No-Objection Letter | No-Objection Letter to a Financing Request by the International Finance Corporation | 391000088359 | N/A | Central Bank |
| Central Bank No-Objection Letter | No-Objection Letter to the Company's Request to Contract with a Labor Supply Company | 2282/99 | N/A | Central Bank |
| Central Bank No-Objection Letter | No-Objection Letter to Form the Company's Board of Directors | 16750/99 | N/A | Central Bank |
| Central Bank No-Objection Letter | No-Objection Letter to the request for Capital Reduction to SR 1,000,000,000 | 381000085801 | N/A | Central Bank |
| Central Bank No-Objection Letter | No-Objection Letter to the Company's Request to Offer Individual Murabaha Products | 42061905 | N/A | Central Bank |

| License type | Purpose | License Number | Expiry Date | Issuer |
|---|---|---|---|---|
| Central Bank No-Objection Letter | No-Objection Letter to the Company's Request to Contract with a Labor Supply Company | 42072270 | N/A | Central Bank |
| Central Bank Approval | Letter of approval of the Company's request to submit the offering file to the Capital Market Authority (CMA) | 42080777 | N/A | Central Bank |
| Central Bank No-Objection Letter | Final No-Objection Letter to the Company for offering its shares in the market | 43012717 | N/A | Central Bank |
| Central Bank No-Objection Letter | No Objection Letter to Appoint Mr. Othman Khairi Bader as a Member of the Company's Board of Directors | 42055650 | N/A | Central Bank |
| Central Bank No-Objection Letter | No-Objection Letter to Offering a Real Estate Finance Product in Individual Ijarah Model | 15834/99 | N/A | Central Bank |
| Central Bank No-Objection Letter | No-objection letter to continue offering of the Ijarah product for an investment property with the promise of ownership, the housing finance product supported by the Real Estate Development Fund,<br>Easy mortgage product in cooperation with the Real Estate Development Fund, and the Off-plan sale financing product. | 41043868 | N/A | Central Bank |
| Commercial Activity License | Commercial Activity License | 40102432022 | 13/02/1443H | Riyadh Municipality |
| Civil Defense Certificate | Civil Defense Certificate | Work is in progress to issue it | - | General Directorate of Civil Defense |
| Key and operating licenses and approvals issued to the Company's Al-Khobar branch | | | | |
| Commercial Activity License | Commercial Activity License | 3909198057 | 05/02/1443H | Eastern Province Municipality |
| Civil Defense Certificate | Civil Defense Certificate | 2-000403227-42 | 20/07/1443H | General Directorate of Civil Defense |
| Key and operating licenses and approvals issued to the Company's Jeddah branch | | | | |
| Commercial Activity License | Commercial Activity License | 39111439784 | 06/02/1443H | Jeddah Municipality |
| Civil Defense Certificate | Civil Defense Certificate | 1-000403200-41 | 15/02/1442H | General Directorate of Civil Defense |

Source: The Company.

The Company reports that it is in the process of updating all the expired licenses and certificates shown in the above table.

## 12-7 Summary of Material Agreements

Except for what is stated in this section and what is stated in Section 12-7-6 (Financing Agreements), in addition to the contracts and agreements entered into by the Company in the course of its normal business (such as financing contracts, financial derivatives and other financial transactions), there are no other contracts or agreements entered into by the Company are considered material to its business. The table below presents a summary of the agreements that the Company deems essential.

**Table of Material Agreements**

Table 12-6: Below is a table of material agreements:

| Name of the agreement | Date and duration | Parties | Subject | Value |
|---|---|---|---|---|
| Software maintenance and support services contract | 28/12/2015G. The term of the contract is one year, renewable. The extension annex was signed for extension from 01/12/2020 to 30/11/2021, with a value of USD 51,781 | Saudi 3i Infotech Co. Ltd. and the Saudi Home Loans Company | Software maintenance and support services | $153,000 annually The renewal amount is $51,781 |
| Software services contract | 25/06/2013 until services are provided | Saudi 3i Infotech Company Ltd. and the Saudi Home Loans Company | Software services contract | $ 1,000,000 |
| Hospitality and cleaning services contracting contract | 04/09/1435H (corresponding to 01/07/2014G) for a period of one Gregorian year, automatically renewable for a similar period | Saudi Home Loans Company and Seder Group for Trading and Contracting Company | Providing hospitality and cleaning services | 1. Riyadh: monthly cost SR 37,400, in addition to the value of the materials included in the contract annex<br>3. Jeddah: monthly cost SR 9,500<br>3. Al-Khobar: monthly cost SR 8,300 |
| Leased Assets Sale Agreement | 27/03/2014G | Saudi Home Loans Company and the Arab National Bank | Sale of leased assets | SR 205,300,000 |
| Leased Assets Sale Agreement | 20/07/2014G | Saudi Home Loans Company and the Arab National Bank | Sale of leased assets | SR 206,700,000 |
| Leased Assets Sale Agreement | 22/05/2014 | Saudi Home Loans Company and the Arab National Bank | Sale of leased assets | SR 294,500,000 |
| Provision of Services Agreement | 01/07/2010 | Saudi Home Loans Company and the Arab National Bank | Establish and operate the company's loans | The Company pays SR 4,000 for each request. Arab National Bank commission is 2% on any transaction |

| Name of the agreement | Date and duration | Parties | Subject | Value |
|---|---|---|---|---|
| The Islamic Banking Services Agreement | 15/11/2009 for one year from the contract starting date the contract and is automatically renewable at the beginning of each fiscal year for a period of one year | Saudi Home Loans Company and the Arab National Bank | Provide ad visory and supervisory services in Sharia | A monthly fee of SR 10,000 starting from the second year |
| Provision of Services Agreement | 01/08/2015G | Saudi Home Loans Company and the Arab National Bank | Processing Salary Transfer Transactions | Monthly fees of SR 8,000 |
| A contract to provide business process support services | 24/10/2017G for one Gregorian year, automatically renewable for a similar period | Saudi Home Loans Company and National Company for Business Solutions (Holool Aloula). | Providing job recruitment and business support services by employing Holool Aloula employees | According to the required service, it is billed monthly by First Solutions |
| Provision of Labor Services Agreement | 19/05/2021 for one Gregorian year, automatically renewable for a similar period, | Saudi Home Loans Company and Wa'ad Sources Company for Operation and Maintenance | Provide individuals to work with the Company by means of internal support. | SR 700 per worker |
| Provision of Services Agreement | 03/11/2019 for one Gregorian year | Saudi Home Loans Company and Al-Elm Information Security Company | An agreement to provide "Yeqin Al-Mubasharah and National Address" services related to the verification and checkup of data information related to Saudi Home Loans Company customers | An annual subscription of (SR 180,000) one hundred and eighty thousand Saudi Riyals in addition to the cost of other services shown in the agreement |
| Asset Custody Agreement | 28/07/2008 to 28/08/2010G. The renewal of this agreement was signed on 01/01/2021 to be valid until 31/12/2025G | The Saudi Home Loans Company and the Kingdom of Installment Company | Register the ownership of the land deeds of Makkah and Madinah in the name of Kingdom of Installment Company only for the purpose of custody | N/A |
| Portfolio Purchase Agreement | 30/03/2021G | Saudi Home Loans Company and the Saudi Real Estate Refinance Company | Saudi Home Loans Company sold the real estate it owned within its portfolio to the Saudi Real Estate Refinance Company | Ninety-four million nine hundred and sixty-two thousand six hundred and eighty-eight Riyals and fifty-one halalas (SR 94,962,688.51) |

| Name of the agreement | Date and duration | Parties | Subject | Value |
|---|---|---|---|---|
| Portfolio Purchase Agreement | 10/11/2020G | Saudi Home Loans Company and the Saudi Real Estate Refinance Company | Saudi Home Loans Company sold the real estate it owned within its portfolio to the Saudi Real Estate Refinance Company | Fifty-one million three hundred and forty-five thousand one hundred and ninety-eight Riyals and sixteen halala (SR51,345,198.16) |
| Services Agreement | 30/03/2021G | Saudi Home Loans Company and the Saudi Real Estate Refinance Company | A Service agreement related to the portfolio purchase agreement dated 30/03/2021G between the two parties where the buyer provides his services as a legal agent for the seller to carry out collection, settlement and management services related to the real estate subject of the portfolio purchase agreement | The fee is 0.50% of the net service charge on the monthly outstanding balance |
| Services Agreement | 10/11/2020G | Saudi Home Loans Company and the Saudi Real Estate Refinance Company | A Service agreement related to the portfolio purchase agreement dated 10/11/2020G between the two parties where the buyer provides his services as a legal agent for the seller to carry out collection, settlement and management services related to the real estate subject of the portfolio purchase agreement | The fee is 0.50% of the net service charge on the monthly outstanding balance |
| Legal Services Agreement | 01/08/2017G | Saudi Home Loans Company and the office of the lawyer Yousef Al-Yousef | Providing legal services | a monthly amount of SR 55,000 |
| Support Services Purchase Order | 31/03/2018G to 30/03/2019G | Digital Movement for Communications and Information Technology Corporation | License to Use Oracle Software and its Support Services | $67,689 |

### 12-7-1 Supplier Agreements

The Company has entered into many agreements with suppliers to obtain equipment, materials and services for its business. Below are examples of such contracts and agreements:

- The agreement dated 19/05/2019G with Waad Sources Company for Operation and Maintenance ("**Waad**") to provide a number of qualified individuals ("**employees**") to carry out multiple tasks in the Company's departments according to the conditions and specifications determined by the Company in exchange for the following items:

  - The Company shall pay SR 700 for each employee provided by Waad Company on a monthly basis, to be paid fifteen days after the employee joined.
  - Waad Company is responsible for paying the dues and salaries of these employees after their collection by the company on a monthly basis. The Company does not bear any responsibilities arising from the dues of these employees that Waad Company is committed to.
  - Waad Company determines the salaries of these employees and agrees with them accordingly.
  - The term of the agreement is one year, automatically renewed, and either party has the right to terminate it by notifying the other party 90 days in advance.
  - This agreement is subject to the regulations of the Kingdom of Saudi Arabia.

### 12-7-2 Business Agreements

In the course of its business, the company entered into a number of usual business agreements with several parties, such as SADAD and SIMAH.

### 12-7-3 IT Agreements

- Maintenance agreement with Saudi 3i Infotech Company, dated 28/12/2015G, according to which the Company obtained a license to use technical systems in addition to other maintenance services. The most important information of the agreement:

  - The Company requested technical support services from 3i Infotech on a regular basis, as it is the holder of the programming license, in return for the Company paying AMC fees for this support.
  - Services will be provided only during official working hours and by phone or e-mail.
  - The company must enable 3i Infotech to access the self-service system, through which support requests are submitted, in addition to enabling it to enter the site and prepare the required equipment for its employees, such as a computer, desk and Internet.
  - The term of the agreement is one year, renewable by agreement of the parties. This agreement was renewed on 24/11/2020G for one year. The support request cannot be canceled, and the fees paid for the license will not be refunded.
  - Fees amounted to $ 51,781, shall be paid periodically, and increased by 7% annually.
  - 3i Infotech's liability will not, in any way, exceed the value of the license fee.
  - It is not possible to transfer the existing rights and obligations from this agreement to any third party without the consent of the other party.
  - This agreement is subject to the laws and regulations of the Kingdom of Saudi Arabia.

- Software support agreement with Saudi 3i Infotech Company dated 25/06/2013, according to which 3i Infotech supplies and installs software and systems in addition to other support services. The most important information of the agreement:

  - The value of the services is $ 1,000,000, to be paid directly upon signing.
  - The agreement ends with the end of the works.

- The parties have the right to terminate the agreement in the event that either party violates its terms with a 30-day notice from the affected party.
- All property rights arising from this agreement from use, development or otherwise belong to 3i Infotech.
- Neither party can transfer this Agreement or any of its rights and obligations to any third party without the written consent of the second party.
- The Company provides the necessary infrastructure for software and systems as requested by 3i Infotech.
- Maintenance of systems is subject to an additional fee of 18.5%, which is equivalent to $93,000 thousand annually.
- Fines applicable to 3i Infotech shall not exceed 0.5% per week of the total value of the agreement, in addition to $30,000 for data migration costs and $60,000 for accidents combined amount of $585,000, provided that they shall not exceed 10 percent of the combined value.
- This agreement is subject to the laws and regulations of the Kingdom of Saudi Arabia.

– Business Solutions and Software Support Agreement dated 24/10/2017G with the National Company for Business Solutions ("**Holool**"), through which the company provides business process support services using its employees. The most important information of the agreement:

- The services provided by Holool Company are job recruitment services and business support services by employing Holool employees.
- Holool is committed to providing the required number of employees required by the company to perform the required services and on the same terms and specifications specified by the Company, within a maximum of 30 working days. Holool Company shall transfer the salaries and entitlements of the employees on a monthly basis.
- Neither party has the right to assign this agreement to any third party without the written consent of the other party.
- The parties have the right to extend and amend the scope of the agreement with their written consent.
- The term of the agreement is one year, renewable annually.
- The fees are according to the package and the required employee and based on the price schedule shown in the agreement. These fees are paid on a monthly basis to Holool Aloula Company.
- This agreement is subject to the regulations of the Kingdom of Saudi Arabia

– The purchase order submitted on 07/01/2018G with the Digital Movement Corporation for Communications and Information Technology ("**the Corporation**"), according to which the Corporation grants a license to use Oracle processors and software for the Company under the following clauses:

- The service period is one year.
- Fees amounts $67,689 to be paid in advance.

– Yaqeen and National Address Agreement with Elm Solutions Company ("**Elm**") dated 03/11/2019G, according to which Elm provides data verification services for the Company's clients with what is in the National Information Center at the Ministry of Interior, and also provides information technology solutions for the Company. The most important information of the agreement:

- The contract value is SR 180,000.
- The term of the contract is one Gregorian year, starting directly from the end date of the development of services that Elm Company determines, and it is automatically renewed for a similar period, unless otherwise either party notifies the other party 30 days before the expiry of the agreement term.
- The development period is 6 weeks, starting from the date of payment of the contract value.
- The verification services provided in this agreement include a set of services, including the service of verifying the data of Saudis using the identity number and date of birth, the service of verifying residents' data using the residence number and date of birth, the service of verifying the data of resident dependents, the national address service and the service of querying the national address data for establishments.

- The terms of this Agreement may be modified by a written agreement between the two parties.
- Either party has the right to terminate this agreement at any time and after notifying the other party in writing at least 15 days before the termination.
- This agreement is subject to the laws and regulations of the Kingdom of Saudi Arabia.

### 12-7-4 Legal Services Agreements

– We have received and reviewed the agreement dated 01/08/2017G and amended on 20/02/2018G between the Company and Yousef Al-Yousef Lawyers and Legal Consultants, according to which he will provide the Company with legal services.

- The services provided are referring to the judicial authorities, attending judicial sessions for lawsuits filed by the Company or against the Company, following up and preparing what is needed for them, in addition to submitting and following up on implementation requests.
- The term of the contract is one year, renewable automatically.
- The contract value is a non-refundable, lump-sum monthly amount of SR 55,000, and a percentage of the amounts collected by the Company which will be 5% if the collected amounts are less than SR 500,000, and 4% if the collected amounts are less than SR 500,000 and less than SR 1,000,000, and 3% if the collected amounts are more than SR 1,000,000, and the Company pays an amount of SR 2,000 in the event that the service provider is forced to travel outside the city of Riyadh to provide services.
- The Company is obligated to provide the service provider with all legal documents and power of attorney related to the lawsuits and requests for execution.
- This agreement is subject to the laws and regulations of the Kingdom of Saudi Arabia.

### 12-7-5 Other Agreements

– Islamic Banking Services Agreement with the Arab National Bank ("ANB") dated November 15, 2009G, according to which the Arab National Bank provides Shariah consultants and monitoring services for compliance with Islamic Shari'a provisions, and the two parties have agreed on the following:

- This agreement begins on the date of execution until the end of the Gregorian year and is automatically renewed at the beginning of the Gregorian year and ends at the end of that year.
- The Company pays the Arab National Bank a monthly fee of SR 10,000 starting from the second year
- Based on this agreement, the Arab National Bank ensures that all the Company's products are subject to the rules of Islamic Sharia, reviews the Company's business and directives to be in conformity with the Sharia Council, coordinates with the Company's Sharia Council to secure approvals and fatwas for the Company's products, reviews all marketing work of the Company and coordinate with the Company to deal with legal advisors to other parties
- Based on this agreement, the Company shall provide the Arab National Bank with all records, documents, information, agreements, procedures, marketing materials and Sharia approvals on the existing products, in addition to providing the Arab National Bank with a request to ensure compliance with the provisions of Islamic Sharia before launching any new product. All financial transactions with clients periodically every quarter. These documents shall be in both Arabic and English.
- Neither party can assign this agreement and transfer it to any third party without the written consent of the other party, and ANB can sub-contract with another party to provide these services to the Company, but ANB remains responsible for any obligations arising from this contract.
- This agreement is subject to the laws and regulations of the Kingdom of Saudi Arabia.

– Services agreement for processing salary transfer transactions with Arab National Bank ("**ANB**") dated August 2015G, according to which the two parties agree on methods for processing salary transfer transactions, based on which monthly lease payments of the Company's customers are collected, the two parties agreed on the following:

- The company provides the Arab National Bank with the customers' payment file, which contains the required information for each customer. The Arab National Bank will deposit the customers' salaries in their files, then deduct the value of the payment and transfer the file to the Company.
- The Company will pay a monthly sum of SR 8,000 to the Arab National Bank team involved in processing the payment files.
- Customer service will be the responsibility of the Company. The Arab National Bank will forward any complaints to the Company.
- Either party has the right to terminate this agreement at any time and without lawful justification upon written notice of 90 days in advance.

– Housing loan service agreement with Arab National Bank ("**ANB**") dated July 2010G, according to which the two parties cooperate to provide and register mortgage loan assets for ANB clients in the Kingdom of Saudi Arabia. To reach this goal, the two parties agreed to integrate the tasks of each of the parties. The two parties also agreed on the following:

- The Arab National Bank will assign three employees to work for the Company at no cost to carry out the tasks related to the eligibility of customers applying for loans, and the Company is committed to providing equipment and offices for them.
- The responsibility for managing customer services is the responsibility of the Arab National Bank and its employees, during the loan issuance period until its registration, and then this responsibility is transferred to the Company until the full loan dues are collected from the customer.
- The basis for calculating the fee and the term of this Agreement are based on customer records. The process of maintaining a record for each customer takes (90) days from the date of its registration. Upon completion of the registration and processing, an application fee of SR 4000 must be paid.
- The record processing fee is SR 4,000 per application reviewed.
- Refunds vary based on the application status.
- This agreement continues and is reviewed at the end of each Gregorian year and can be terminated or amended upon a 30 daysday prior notice.
- This agreement is subject to the laws and regulations of the Kingdom of Saudi Arabia.

– Arab National Bank has purchased a portfolio of leased assets from the Company under the Leased Assets Sale Agreement. The total value of the assets sold under the agreement amounted to SR 706,500,000, on March 27, 2014, May 22, 2014, and July 20, 2014. Accordingly, the Arab National Bank has agreed to provide Tawarruq facilities to the Company on the following basis:

- The term of the agreement will expire on March 27, 2014.
- The price of the 452 assets sold under this agreement is: SR 205,300,000 to be paid by the buyer on the business day following the completion of the agreement.
- Fees and cost of the agreement are in future profit sharing.
- The Company must relinquish the ownership of the assets with the rights duly assigned upon completion of the transaction so that all rights and obligations are transferred to the buyer as if he is the contracting party in the lease contracts instead of the Company.
- The buyer has provided Tawarruq credit facilities to the Company.
- In the event that one of the tenantstenants' objects to transferring the ownership of the contracts to the buyer, the Company must replace this asset with another asset of the same value and present it to the buyer. If the buyer accepts, the Company must transfer the ownership of this asset to the buyer within a period not exceeding 60 days from the buyer's approval.

- The Company will not bear any responsibility resulting from a violation of the portfolio guarantee, unless this violation has a material impact on the value of the leased assets, and the impact is substantial and effective if the value of the losses exceeds SR 6,000, in which case the buyer has the right to claim the full value of the resulting losses for this violation. The maximum claim is 5% of the purchase value.
- The parties have the right to transfer the ownership of this contract to other parties and transfer it.
- This agreement is subject to the laws and regulations of the Kingdom of Saudi Arabia.

– ANB purchased a portfolio of leased assets from the Company under the Leased Assets Sale Agreement dated May 22, 2014G. ANB agreed to extend credit to the Company based on the following:

- The term of the agreement will expire on May 22, 2014.
- The price of the 531 assets sold under this agreement is SR 294,500,000, to be paid by the buyer on the business day following the completion of the agreement.
- Fees and cost of the agreement in future profit sharing.
- The buyer has provided Tawarruq credit facilities to the Company.
- The Company must relinquish the ownership of the assets with the rights duly assigned upon completion of the transaction so that all rights and obligations are transferred to the buyer as if he is the contracting party in the lease contracts instead of the Company.
- In the event that one of the tenantstenants' objects to transferring the ownership of the contracts to the buyer, the Company must replace this asset with another asset of the same value and present it to the buyer. If the buyer accepts, the Company must transfer the ownership of this asset to the buyer within a period not exceeding 60 days from the buyer's approval.
- The Company will not bear any responsibility resulting from a violation of the portfolio guarantee, unless this violation has a material impact on the value of the leased assets, and the impact is substantial and effective if the value of the losses exceeds SR 6,000, in which case the buyer has the right to claim the full value of the resulting losses for this violation. The maximum claim is 5% of the purchase value.
- The parties have the right to transfer the ownership of this contract to other parties and transfer it.
- This agreement is subject to the laws and regulations of the Kingdom of Saudi Arabia.

– ANB purchased a portfolio of leased assets from the Company under the Leased Assets Sale Agreement dated July 20, 2014G. ANB agreed to extend credit to the Company based on the following:

- The term of the agreement will expire on July 20, 2014G.
- The price of the 421 assets sold under this agreement is SR 206,700,000, to be paid by the buyer on the business day following the completion of the agreement.
- Fees and cost of the agreement are in future profit sharing.
- The buyer has provided Tawarruq credit facilities to the Company.
- The Company must relinquish the ownership of the assets with the rights duly assigned upon completion of the transaction so that all rights and obligations are transferred to the buyer as if he is the contracting party in the lease contracts instead of the Company.
- In the event that one of the tenantstenants' objects to transferring the ownership of the contracts to the buyer, the Company must replace this asset with another asset of the same value and present it to the buyer. If the buyer accepts, the Company must transfer the ownership of this asset to the buyer within a period not exceeding 60 days from the buyer's approval
- The company will not bear any responsibility resulting from a violation of the portfolio guarantee, unless this violation has a material impact on the value of the leased assets, and the impact is substantial and effective if the value of the losses exceeds SR 6,000, in which case the buyer has the right to claim the full value of the resulting losses for this violation. The maximum claim is 5% of the purchase value.
- The parties have the right to transfer the ownership of this contract to other parties and transfer it.
- This agreement is subject to the laws and regulations of the Kingdom of Saudi Arabia.

- An agreement between Seder Group and the Company on 04/09/1435H (corresponding to July 7, 2014G), according to which Seder Group will provide the Company with cleaning and hospitality services for its headquarters and branches by providing (7) cleaning workers and (5) hospitality workers and (1) supervisor, to carry out work for 48 hours per week in Riyadh, Jeddah and Al-Khobar. The duration of the agreement is one year, starting from July 1, 2014G and valid until June 30, 2015G. The Agreement is automatically renewed, unless either party notifies the other in writing of his intention to terminate at least one month before the termination of the Agreement.
- The Company is obligated to pay an amount of SR 54,400 per month to Seder Group as follows: the total monthly cost for 8 cleaners in Riyadh is SR 21,400, in addition to a hospitality and cleaning supervisor, whose total monthly cost is SR 6,000; the total monthly cost for two cleaners in Jeddah is SR 7,800; the cost of cleaning materials is SR 1,700 per month; the cost of cleaning workers in Al-Khobar amounted to SR 7,800 per month, in addition to the monthly cost of cleaning materials amounted to SR 500. These amounts are paid by the Company within a period not exceeding 21 days from the date of receiving the monthly receivable. Seder Group is committed to bearing the basic expenses necessary for the workforce, such as salaries, housing insurance, transportation, travel tickets, and medical insurance. It also directly supervises the performance of the workforce, the level of service performance and adherence to working hours. This contract is subject to the laws and regulations in force in the Kingdom of Saudi Arabia.
- A safekeeping agreement with Kingdom of Installment Company on July 28, 2008G. The term of this agreement began on 28/07/2008G and was renewed on January 1, 2021G for a period of 5 years until December 31, 2025G.

  - Kingdom of Installment Company will provide a service of safekeeping and management of the assets specified in the agreement.
  - The Company compensates the Kingdom Installment Company for any amounts paid to any third party in accordance with the work required in this agreement and to achieve its purpose.
  - Kingdom of Installment Company cannot assign or transfer any of the rights and obligations of this agreement or the entire agreement to any third party without the written consent of the Company.
  - This agreement is subject to the laws and regulations of the Kingdom of Saudi Arabia.

- This agreement was entered into on November 10, 2020G with the Saudi Real Estate Refinance Company ("**SRC**") to purchase portfolio properties arising from Ijarah contracts. The two parties agreed on the following:

  - Sale date was October 31, 2020G.
  - SRC assumes all obligations arising from the property as well as subsequent rights associated with it.
  - The total financial consideration payable from the buyer to the seller in order to purchase the portfolio that includes 73 lease contracts with a total maturity balance of SR 50,166,290.33, is an amount of SR 51,345,198.16 to be paid upon achieving the initial completion. Payment shall be via bank check or bank transfer.
  - The portfolio property is sold within (10) days from the transfer of ownership.
  - Promissory notes issued by the Company's clients on each Ijarah contract shall be, accordingly, to SRC.
  - Transfer of rights:

    - Transfer by Buyer: Buyer is entitled to transfer all or any of his rights or obligations under this Agreement. In the event that such transfer is realized, the seller undertakes that he is obligaged to implement and issue the necessary declaration.
    - Transfer by the Seller: the Seller shall not transfer any or all of its rights or obligations under this Agreement to any party, except after obtaining the prior written consent of the Buyer.

  - This Agreement and other non-contractual obligations relating to it or arising from it shall be subject to the laws of the Kingdom of Saudi Arabia and the courts of the Kingdom of Saudi Arabia shall have the jurisdiction to settle any dispute that may arise out of this Agreement.

- This agreement was entered into on November 10, 2020G with the Saudi Real Estate Refinance Company ("**SRC**") for the services arising from the Portfolio Real Estate Purchase Agreement dated November 10, 2020G. The two parties agreed on the following:

  - The term of this agreement begins at the beginning of the portfolio purchase agreement, according to which the service provider in his capacity as the seller sold the real estate of the portfolio and the lease contracts and contractual rights related to those real estate to the principal.
  - SRC will provide its services as an agent for the Company including fee collection, settlement and asset management
  - The service fee will be 0.50% of the net service fee for the monthly balance.
  - The service provider shall, upon execution, designate the authorization letter and this agreement. The principal shall appoint the service provider as his legitimate agent, to act on his behalf, to carry out collection, settlement and management services related to the portfolio's real estate and the lease contracts related to those real estate.
  - The service provider is obligated periodically to submit reports on combating financial crimes to the client.
  - The service provider may subcontract after obtaining approval from the SAMA.
  - The Principal may assign or transfer all or any of the rights and usufruct rights and obligations under this Agreement to any affiliate without the consent of the Service Provider, or assign or transfer all or any of the rights, usufruct rights and obligations under this Agreement to any third party after obtaining the prior consent of the Service Provider. The Service Provider acknowledges that it will cooperate with the Principal with respect to such transfer, including the implementation of any agreement regarding transfer or renewal.
  - The service provider may not transfer his rights or obligations under this agreement without obtaining the prior written consent of the principal.
  - This agreement and other non-contractual obligations relating to it or arising from it are subject to the laws of the Kingdom of Saudi Arabia and the courts of the Kingdom of Saudi Arabia shall have the judicial authority to settle any dispute that may arise out of this agreement

- This agreement was entered into on March 30, 2021G with the Saudi Real Estate Refinance Company ("**SRC**") to purchase portfolio properties arising from Ijarah contracts. Accordingly, the two parties agreed on the following:

  - Sale date is March 31, 2021G
  - SRC assumes all obligations arising from the property as well as subsequent rights associated with it.
  - The total financial consideration payable from the buyer to the seller in order to purchase the portfolio containing 111 lease contracts with a total maturity balance of SR 92,782,304,36. The sale value is SR 94,962,688.51. It is paid upon completion of the sale. It is paid in full upon achieving the initial completion, and the payment is made via a bank check or bank transfer.
  - Transfer of rights:

    - Transfer by Buyer: Buyer is entitled to transfer all or any of his rights or obligations under this Agreement. The seller undertakes, in the event that such transfer is realized, that he is obligated to implement and issue the necessary declaration.
    - Transfer by the Seller: the Seller shall not transfer any or all of his rights or obligations under this Agreement to any party, except after obtaining the prior written consent of the Buyer.

  - The portfolio property is sold within (10) days with the transfer of ownership.
  - This Agreement and other non-contractual obligations relating to it or arising from it shall be subject to the laws of the Kingdom of Saudi Arabia, and the courts of the Kingdom of Saudi Arabia shall have the jurisdiction to settle any dispute that may arise out of this Agreement.

– This agreement was concluded on March 30, 2021G with the Saudi Real Estate Refinance Company ("**SRC**") arising from the Portfolio Real Estate Purchase Agreement dated March 30, 2021G, and the two parties agreed on the following:

- The term of this agreement begins at the beginning of the portfolio purchase agreement, according to which the service provider, in his capacity as the seller, sold the portfolio real estate, the lease contracts and the contractual rights related to those real estate to the principal.
- SRC will provide its services as an agent for the Company including fee collection, settlement and asset management.
- The service fee will be 0.50% of the net service fee for the monthly balance.
- The service provider shall, upon execution, designate the authorization letter and this agreement. The principal shall appoint the service provider as his legitimate agent, to act on his behalf, to carry out collection, settlement and management services related to the portfolio's real estate and the lease contracts related to those real estate.
- The service provider is obligated periodically to submit reports on combating financial crimes to the Principal.
- The service provider may subcontract after obtaining approval from the Saudi Arabian Monetary Agency (SAMA).
- The Principal may assign or transfer all or any of the rights and usufruct rights and obligations under this Agreement to any affiliate without the consent of the Service Provider, or assign or transfer all or any of the rights, usufruct rights and obligations under this Agreement to any third party after obtaining the prior consent of the Service Provider. The Service Provider acknowledges that it will cooperate with the Principal with respect to such transfer, including the implementation of any agreement regarding transfer or renewal.
- The service provider may not transfer his rights or obligations under this agreement without obtaining the prior written consent of the principal.
- This Agreement and other non-contractual obligations relating to it or arising from it shall be subject to the laws of the Kingdom of Saudi Arabia and the courts of the Kingdom of Saudi Arabia shall have the jurisdiction to settle any dispute that may arise out of this Agreement.

### 12-7-6 Financing Agreements

The Company has entered into five financing agreements with commercial banks in relation to its business, and the Company's indebtedness as of June 30, 2020G is approximately SR 3,547,354,224 three billion five hundred and forty-seven million three hundred and fifty-four thousand two hundred and twenty-four Saudi Riyals.

The following is a summary of the terms and provisions of those agreements that the Company considers essential or important, or that may affect the subscribers' decision to invest in the Offer Shares. The Company also did not breach any of the terms and commitments stipulated in those agreements. These summaries include only the material terms and conditions, not all of the terms and conditions under those agreements, and the summary cannot be considered a substitute for the terms and conditions of those agreements.

Some financing agreements concluded by the Company contain provisions that require prior notification to the financiers of any change in the control of the Company, the ownership structure of the Company or when the Company's shares are offered for public subscription, as well as provisions that require the prior approval of the financiers before any of the that. The Company has obtained the necessary approvals from all the financiers in this regard.

Table 12-7: The following table shows the financing agreements entered into by the Group for its business purposes:

| Lender | Financing Type | Period | Financing Amount | Notes |
|---|---|---|---|---|
| Arab National Bank | Credit Facility Agreement Compliant with Shariah Controls | From 15/10/1440H (corresponding to 18/06/2019G) to 06/06/1441H (corresponding to 31/01/2020G) | SR 2,447,354,224.48 | This agreement has been renewed on March 2, 2021G, and the two parties agreed to reduce the amount of the facilities to be SR 1,984,928,556 and valid until January 31, 2022. |
| International Finance Corporation ("**IFC**") | Murabaha Facility Agreement | The facility period begins on 24/08/1437H (corresponding to 31/05/2016G) | Attached to it a promissory note amounting to SR 150,000,000 to be paid upon request by IFC. | The facility consists of the following:<br>– Under this agreement when IFC sells the goods to the Company on deferred payment terms stipulating that the Company pays IFC the amount of cost and Murabaha profit.<br>– The Company is prohibited from making any material change in its legal status or business without notifying the International Finance Corporation ("**IFC**"), therefore the Company must notify IFC and obtain IFC's non-objection on the IPO, if the Company does not comply with the aforementioned based on the terms and conditions of the agreement, IFC has the right to a default and require full repayment of the facility. |
| Saudi Real Estate Refinance Company | Murabaha facility agreement | From the date of 22/11/1440H (corresponding to 25/07/2019G) until 30/01/1447H (corresponding to 25/07/2025G) | SR 100,000,000 | – The company must issue a bond An order in favor of SRC for the value of the Deferred Sale Price relating to each transaction.<br>– As per the stipulated provisions, the Company is obligated to make its payments within the agreed period and therefore no deferred payments may exceed a period of 3, 6 or 12 months allowing the bank to withdraw (3%) for the lease period.<br>– According to the revised agreement, it restricts the Company's ability to restructure its business. Accordingly, the Company is obligated to obtain approval from the Bank for any change in ownership, shareholder structure and/or management control.<br>– The company is obligated to obtain the approval of the SRC for the public offering. |

| Lender | Financing Type | Period | Financing Amount | Notes |
|---|---|---|---|---|
| The Saudi National Bank | Trade Finance and Banking Services Agreement | From 14/11/1440H (corresponding to 16/07/2019G) until 13/03/1456H (corresponding to 31/05/2034G) | SR 400,000,000 | The facility waives the following conditions:<br>a) The Company must disburse the assets of the commercial facility within (4) months paid on a monthly basis.<br>b) Profit margin is 1.65 + 3 months SAIBOR<br>c) Payment is made in installments for a period of (15) years with 25% payment as final payment.<br>d) The Company's method of withdrawing an amount not exceeding SR 50,000,000 at each transaction for each credit facility (carrying over).<br>e) The Company is obligated to inform the Bank of any material changes in the operation or financial conditions.<br><br>According to the revised agreement, it limits the Company's ability to restructure its business. Accordingly, the Company is obligated to obtain approval from the Bank for any change in ownership, shareholder structure and/or management control. |
| Gulf International Bank (GIB) | Murabaha Commodities Purchase Financing Agreement | Dated June 4, 2015G and the end date of availability is March 4, 2016G. (9 months after signing the agreement). | Amount of facilities SR 300,000,000 | The company entered into a Murabaha financing agreement with Gulf International Bank on June 4, 2015 in relation to the purchase of certain commodities, namely copper, platinum, zinc, lead, aluminum, aluminum alloys, iridium, nickel and palladium.<br>The Company is required to issue a promissory note in favor of GIB for the value of the deferred sale price related to each transaction. |
| Gulf International Bank | Murabaha commodity purchase financing agreement | from 10/09/1438H (corresponding to 15/10/2020G) until 17/06/1439H (corresponding to 27/01/2021G) | SR 559,000,000 | – The company must issue a promissory note in favor of Gulf Bank International value of the deferred selling price associated with each transaction.<br>– According to the revised agreement, the Company is prohibited from making any material change in its legal status or business without the prior written consent of the Bank.<br>– The company is committed to obtaining the approval of the Gulf International Bank to issue any other shares. |

**Commodity Credit Facility Agreement with Arab National Bank**

The Company entered into a banking facility agreement on June 18, 2019G as a borrower and the Arab National Bank as a lender with a total value of the facilities amounting to SR 2,447,354,224.48. This agreement was renewed on March 2, 2021G and the two parties agreed to reduce the amount of the facilities to be SR 1,984,928,556 and is valid until January 31, 2022G.

The facilities provided in this agreement are as follows:

a. Tawarruq - A term facility of a maximum of SR 222,770,286. The total amount is paid in semi-annual installments before the last installment is on June 30, 2026.
b. Tawarruq - Fixed-term facility amounting to SR 41,287,676. The total amount is paid in semi-annual installments before the last installment is on March 31, 2022.
c. Tawarruq - A term facility of SR 408,387,865. The total amount is paid in semi-annual installments before the last installment is on June 30, 2022.
d. Tawarruq - A term facility with a maximum of SR 367,671,004. The total amount is paid in semi-annual installments before the last installment is on October 31, 2023.
e. Tawarruq - A term facility with a maximum of SR 109,632,169. The total amount is paid in semi-annual installments before the last installment is on October 31, 2023.
f. Tawarruq - A term facility of a maximum of SR 165.357.576. The total amount is paid in semi-annual installments before the last installment is on August 31, 2025G.
g. Islamic letters of guarantee up to a maximum of SR 45,638,701 for a period of one year starting from the maturity date of January 6, 2020G.
h. Tawarruq - fixed-term facility amounting to 279,999,980 Saudi riyals. Payment of the total amount is in semi-annual installments before the last installment will be on January 31, 2026.
i. Tawarruq - A term facility with a maximum of SR 389,722,000. The total amount is paid in semi-annual installments before the last installment is on July 31, 2023G.
j. Credit card facilities with a maximum limit of SAR 100,000 until January 31, 2022G.

The Company is obligated to issue a promissory note in the total amount of the facility due upon request by the Arab National Bank.

According to the revised agreement, it restricts the Company's ability to restructure its business. Accordingly, the Company is obligated to obtain approval from the Bank for any change in ownership, shareholder structure and/or management control.

The Company is committed to obtaining the approval of the Arab National Bank for the public offering.

**Murabaha Financing Agreement with the International Finance Corporation ("IFC")**

The Company entered into a Murabaha Financing Agreement with the International Finance Corporation on May 31, 2016G in relation to the financing of the Company's home financing operations. Attached to it is a promissory note for the amount of SR 150,000,000 to be paid upon request by the bank. The facility consists of the following:

Under this agreement, when the bank sells the goods to the Company on deferred payment terms, it stipulates that the Company pays the bank the amount of the cost and Murabaha profit.

The Company is prohibited from making any material change in its legal status or business without notifying the International Finance Corporation ("IFC"), therefore the Company must notify IFC and obtain IFC's non-objection on the IPO, if the Company does not comply with the aforementioned based on the terms and conditions of the agreement, IFC has the right to a default and require full repayment of the facility.

**Murabaha Financing Agreement with the Saudi Real Estate Refinance Company ("SRC")**

The Company entered into a Murabaha financing agreement with SRC on July 25, 2019G regarding the purchase of certain commodities, namely copper, platinum, zinc, lead, aluminum alloys, iridium, nickel, palladium and rhodium.

The Company is required to issue a promissory note in favor of the SRC for the value of the Deferred Sale Price relating to each transaction.

The amount of the facility is SR 100,000,000. The end of availability date is July 25, 2025.

As per the stipulated provisions, the Company is obligated to perform its payments within the agreed period and therefore no deferred payments may exceed a period of 3, 6 or 12 months, which allows the Bank to withdraw (3%) for the delay period.

According to the revised agreement, it restricts the ability of Saudi Home Loans Co. (SHL) to restructure its business. Accordingly, the Company is obligated to obtain approval from the Bank for any change in ownership, shareholder structure and/or management control.

The Company has received SRC approval for the IPO.

**Commercial Facilities and Banking Services with the Saudi National Bank**

The Company entered into a concessional commercial facility agreement with the National Commercial Bank, which is now the Saudi National Bank, on July 14, 2019G in the amount of SR 400,000,000, to finance the commodity sold by the bank at the request of the Company and its effect will be valid until May 31, 2020G (only one-time financing). Upon a written agreement by the parties or upon a decision of the National Commercial Bank, the Commercial Facility Agreement may be renewed in whole or in part only as stipulated in the provisions. The Agreement restricts the Company's right to choose the means of facilities to be provided upon request.

The entity waives the following terms:

a. The company must disburse the assets of the commercial facility within (4) months, to be paid on a monthly basis.
b. Profit margin is SAIBOR + 3% per annum (p.a.)
c. Payment is made in installments for a period of (15) years with 25% payment as final payment.
d. The Company's method of withdrawing an amount not exceeding SR 50,000,000 at each transaction for each credit facility (carrying over).
e. The Company is obligated to inform the Bank of any material changes in the operation or financial conditions.

According to the revised agreement, it limits the company's ability to restructure its business.

Accordingly, the Company is obligated to obtain approval from the Bank for any change in ownership, shareholder structure and/or management control.

The Company obtained the approval of the Saudi National Bank for IPO.

**Murabaha Financing Agreement with Gulf International Bank ("GIB")**

The Company entered into a Murabaha Financing Agreement with Gulf International Bank on June 4, 2015 in relation to the purchase of certain commodities, namely copper, platinum, zinc, lead, aluminum, aluminum alloys, iridium, nickel and palladium.

The Company is required to issue a promissory note in favor of GIB for the value of the deferred sale price related to each transaction.

The amount of the facilities is SR 300,000,000. The end of availability date is March 4, 2016G. (9 months after signing the Agreement).

According to the revised Agreement, the Company is prohibited from extending loans, granting credits, or making or advertising any dividend or other distribution without the prior written approval of the Bank.

The Company is obligated to obtain the approval of GIB to issue any other shares.

**Murabaha Financing Agreement with Gulf International Bank ("GIB")**

The Company entered into a Murabaha financing agreement with Gulf International Bank on June 5, 2017G, in connection with the purchase of certain commodities, namely copper, platinum, zinc, lead, aluminum, aluminum alloys, iridium, nickel and palladium.

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The Company is required to issue a promissory note in favor of GIB for the value of the deferred sale price related to each transaction.

The amount of the facility is SR 150,000,000. The end of availability date is March 5, 2018 (9 months after signing the agreement).

According to the revised Agreement, the Company is prohibited from making any material change in its legal position or business without the prior written consent of the Bank.

The Company is obligated to obtain the approval of GIB to issue any other shares.

The Company also entered into a Murabaha facility agreement on December 11, 2019G, where the above facilities were canceled. The outstanding balance of the above-mentioned facilities was consolidated into a single facility agreement in the amount of SR 418,000,000.

In October 2020G, the Company entered into an amendment with the Gulf International Bank to the amount of the Murabaha facility on December 11, 2019 to adjust the amount of the facility to become SR 559,000,000.

## 12-8 Insurance Policies

The Company has concluded several insurance contracts to cover the various types of risks that it may be exposed to. The policies were concluded with several insurance companies inside the Kingdom. The following table shows the main details of the insurance policies held by the Company:

Table 12-8: Summary of the Company's Insurance policies as on 31/07/2019G:

| Policy number | | Type of insurance coverage | Insurance company | Maximum compensation (SR) | Coverage expiry date |
|---|---|---|---|---|---|
| 1 | CLP-1700236 | Life insurance | The Mediterranean and Gulf Cooperative Insurance and Reinsurance Co. (MEDGULF) | SR 5,000,000 | 31/12/2021G |
| 2 | DOL-1602648-2021 | Directors and Executives Liability Insurance | MEDGULF | SR 7,500,00 | 31/12/2021G |
| 3 | FGI/5803366-2021/ Renewal No. 3973 | Insurance against fraud and dishonesty of employees | MEDGULF | SR 810,000 | 31/12/2021G |

| | Policy number | Type of insurance coverage | Insurance company | Maximum compensation (SR) | Coverage expiry date |
|---|---|---|---|---|---|
| 4 | MON/5807888-2021/ Renewal No. 5298 | Money Insurance | MEDGULF | – SR 200,000 on the money in the safe.<br>– SR 75,000 during the transfer of money to and from the bank.<br>– SR 7,500,000 Annual carryings<br>– Total sum at risk SR 275,000 | 31/12/2021G |
| 5 | PLS/5806120-2021 | General liability insurance | MEDGULF | 2,500,000 | 31/12/2021G |
| 6 | PAR-5817093-2021 | All property damage insurance | MEDGULF | Maximum SR 40,000,000 | 31/12/2021G |
| 7 | P/102/24/1003/2021/101/8 | All property damage insurance | Saudi Arabian Cooperative Insurance Co. | SR 100,000,000 maximum per incident | 31/12/2021G |
| 8 | - | Medical insurance for Company employees | Malath Cooperative | SR 4,774,023 | 31/12/2021G |
| 9 | - | Commercial vehicle insurance | Tawuniya | SR 90,000 | 12/03/2022G |

## 12-9 Real Estate

### 12-9-1 Title Deeds

The company owns real estate proven with more than (7000) title deeds. Title deeds are recorded as collateral for loans made to the Company's clients. The number varies from time to time based on new clients and loan payments.

Given that the Company is considered a mixed company, it cannot own real estate within Makkah and Madinah. Therefore, the Company has entered into an agreement with Kingdom of Installment Trading Company ("**KIC**").

### 12-9-2 Lease Contracts

Table 12-9: The Company has entered into three lease agreements related to real estate used as branches of the Company

| Site | Lessor | Date | Contract term | Annual Rent | Renewal mechanism |
|---|---|---|---|---|---|
| Offices No. 203, 304, 303, 104, 103, 004 and 003 Al-Murabba Towers Building, Madarat Al-Murabba District, Riyadh, | Tharwat Al-Osoul Company | 06/05/1441H (01/01/2020G) | 1 year | SR 2,288,937 | Automatic renewal unless one of the parties expresses his intention not to renew 3 months before the expiry date |
| Building No. 1, Showroom No. 1, 2, 3, 4, 5, Al Rehab, Jeddah | Hessa Muhammad Al-Adl | 26/02/1435H (29/12/2013G) | 4 years | SR 500,000 | Automatic renewal unless one of the parties expresses his intention not to renew 3 months before the expiry date |
| Al-Tuwairqi Tower, Showroom No. 2 | Sukoon Real Estate Company | 21/01/1434H (04/12/2012G) | 7 years | SR 323,400 | To be renewed for a period to be agreed upon later, otherwise it will be automatically renewed for a similar period unless either party expresses his desire not to renew in writing two months before the expiry of the original or renewed period |

## 12-10 Transactions and Contracts Agreements with Related Parties

The members of the Company's Board of Directors acknowledge that all contracts with related parties described in this section do not include any preferential terms and that they have been done in a regular and legal manner and on appropriate and fair commercial bases. Except for what was mentioned in this section of this prospectus, the members of the Board of Directors acknowledge that the Company is not involved in any dealings, agreements, commercial relationships or real estate deals with a related party, including the financial advisor and the legal advisor for the Offering.

The members of the Board of Directors also agree to abide by Article 71 and 72 of the Companies Law and the instructions of Article 46 of the Corporate Governance Regulations issued by the CMA in relation to agreements with related parties. The General Assembly approved all agreements with related parties for the fiscal years 2018G, 2019G and 2020G and the six-month period ending on June 30, 2021G.

Table 12-10: The following table, as derived from management, shows the Company's transactions with related parties for the fiscal years ending on December 31, 2018G, 2019G and 2020G

| Nature of Transaction | Related Party | The value of the transaction as on 31/12/2018G | The value of the transaction as on 31/12/2019G | The value of the transaction as on 31/12/2020G |
|---|---|---|---|---|
| Loan | Arab National Bank (shareholder) | 2,216,981,529 | - | - |
| Loan | International Finance Corporation (shareholder) | 187,500,000 | - | - |
| Tawarruq financing burdens | Arab National Bank (shareholder) | 109,898,506 | 103,241,287 | 62,159,970 |

| Nature of Transaction | Related Party | The value of the transaction as on 31/12/2018G | The value of the transaction as on 31/12/2019G | The value of the transaction as on 31/12/2020G |
|---|---|---|---|---|
| Services cost | Arab National Bank (shareholder) | 8,236,857 | - | - |
| Insurance cost | MetLife Arab National Bank (sister company) | 10,156,303 | 8,782,622 | 7,298,316 |
| Tawarruq financing fees provided | International Finance Corporation (shareholder) | 1,723,096 | 1,109,800 | 1,096,504 |
| Tawarruq financing burdens provided | International Finance Corporation (shareholder) | 4,662,866 | - | - |
| Store rent | Afwaf Investments Company (sister company) | 1,882,090 | 2,179,941 | 2,179,940 |
| Deferred contract creation fees deferred/paid | Arab National Bank (shareholder) | 1,119,091 | 108,864 | 211,928 |
| Tawarruq financing burdens | International Finance Corporation (shareholder) | 9,126,319 (1) | 10,059,030 | 6,317,122 |
| Buying a home | Dar Al-Arkan Company (Shareholder) | The financial statements for the year 2018G did not refer to this transaction, and they referred to it in the financial statements for the year 2019G and it was mentioned that a purchase amounted to SR 4,310,776 was made. | 20,038,669 | 16,836,190 |
| **Total** | | **568,751,234** | **144,410,413** | **95,003,466** |

## 12-11 Conflict of Interest

Except as disclosed in Section (12-10) "**Transactions and Contracts Agreements with Related Parties**", the members of the Board of Directors confirm that they have no conflict of interest with respect to contracts or services concluded with the Company, and that none of them has engaged in any activities similar to the Company's or in conflict with it, as of the date of this prospectus.

(1) Based on the financial statements for the year ending on December 31, 2018, the amount for the year 2018 is 8,794,273

## 12-12 Intellectual Property Rights

The Company owns a trademark with registration certificate No. 1442010776 and its protection is valid until 02/04/1452H (corresponding to 02/08/2030G).

The Company owns a trademark with registration certificate No. 1442010779 and its protection is valid until 02/04/1452H (corresponding to 02/08/2030G).

The Company's brands derive their value from their reach and customers' knowledge and perception of them. Thus the success of the Company depends largely on its ability to maintain and enhance the strength and value of its brand, and this in turn depends on many factors such as the reputation of the Company and the financing products offered by the Company. Brands are also used in the Company's marketing efforts, which contribute to increasing sales and profits for the Company.

Table 12-11: Summary of Brands

| Trademark Logo | Trademark Registration Certificate Number | Description | Country of Registration | Effective Date |
|---|---|---|---|---|
| SHL السعودية لتمويل المساكن SAUDI HOME LOANS | 1442010776 | The phrase Saudi Home Loans Company in Arabic letters under it is the phrase "**Saudi Home Loans**" in Latin letters in blue, underlined by a red line next to it, and the Latin letters SHL in a distinctive blue and red colors | Kingdom of Saudi Arabia | 02/04/1452H (corresponding to 01/08/2030G) |
| SHL السعودية لتمويل المساكن SAUDI HOME LOANS | 1442010779 | The Latin letters SHL distinctively in blue and red and the phrase Saudi Home Loans Company in Arabic letters under it the phrase Saudi Home Loans in Latin letters in blue separated by a red line | Kingdom of Saudi Arabia | 02/04/1452H (corresponding to 01/08/2030G) |

## 12-13 The Saudi Central Bank Observations and Violations

The Company is licensed by the Saudi Central Bank, which requires it to abide by the regulations and instructions issued by it. In this regard, and through field inspection visits carried out by the Saudi Central Bank, and based on a review of a sample of the Company's documents, it provides observations on the Company's documents and the progress of its work. The Saudi Central Bank had earlier imposed fines on the Company for violating the applicable regulations and circulars, and the Company, in turn, handled the violations and adhered to corrective plans and paid the fines. The members of the Board of Directors acknowledge that the Company processes all observations on a regular basis and works with the Central Bank to develop corrective plans when needed and adhere to them.

Table 12-12: Details of the Saudi Central Bank's Observations and Violations

| Violation Type | Date | Amount |
|---|---|---|
| Violation of the Finance Companies Control Law | 20/08/1440H (corresponding to 25/04/2019G) | SR 80,000 |
| Violation of the Finance Companies Control Law | 04/09/1440H (corresponding to 09/05/2019G) | SR 120,000 |
| Violation of the Finance Companies Control Law | 19/01/1441H (corresponding to 18/09/2019G) | SR 50,000 |
| Violation of anti-money laundering laws | 24/09/1440H (corresponding to 29/05/2019G) | SR 137,000 |
| Violation of the Finance Companies Control Law | 16/10/1441H (corresponding to 08/06/2020G) | SR 250,000 |
| Violation of Corona's Precautions | 12/03/1441H (corresponding to 29/09/2020G) | SR 20,000 |
| Violation of the supervisory instructions of the Saudi Central Bank | 08/01/1443H (corresponding to 16/08/2021G) | Written warning |

Source: the company

## 12-14 Claims and Litigation

### 12-14-1 The Company's Zakat Status, Disputes and Claims

The Saudi Home Loans Company submitted Zakat returns, paid the due Zakat on time, and obtained certificates from the Zakat, Tax and Income Authority (GAZT) for all years until 2020G. The Zakat, Tax and Customs Authority has not submitted, as of the date of this prospectus, any additional claims or amendments in relation to the assessment of zakat liabilities for any previous fiscal years of the Saudi Home Loans Company.

The Company also does not expect any additional zakat or tax claims for previous years or not mentioned in the prospectus. In the event of any additional claims from the Zakat, Tax and Income Authority, the Company will bear all such claims (if any) and the selling shareholders will not bear any of these claims.

GAZT has issued rules for calculating zakat on financing activities, which apply to banks and finance companies licensed by the Central Bank. These rules were published on 8/7/1440H (corresponding to 15/03/2019G) in Umm Al-Qura Newspaper No. 4771, and these rules were followed in calculating Zakat from the beginning of the year 2019G and the following years. Based on these rules, the Zakat base will have an upper and a minimum limit for companies that achieve net profits, ranging between four (4) times the net profit before Zakat as at the end of the Zakat year as a minimum, and eight (8) times the profit before zakat as at the end of the Zakat year as a maximum of the year's profits before zakat and tax. As of the date of this Prospectus, there is no dispute regarding Zakat with the Zakat, Tax and Income Authority or objection by it (for more information, please see Section (2-1-8) Risks related to Potential Tax and Zakat Dues)

### 12-14-2 The Company's Tax Status, Disputes and Claims

Since the issuance of the value-added tax (VAT) system, which entered into force on January 1, 2018G, the Company has been registered with the Zakat, Tax and Income Authority in accordance with the value-added tax system and to enable the Company to finalize all its transactions. The Company has paid the VAT for all years until 2020G. As at the date of this prospectus, there is no tax dispute with the Zakat, Tax and Income Authority or objection by it (for more information, please see Section (2-1-8) (Risks related to Potential Tax and Zakat Dues)

### 12-14-3 Litigation

The Company has fifty-four (54) claims filed against it before the Committee for the Resolution of Violations and Financing Disputes, where the Company is a defendant, and the Company has filed 144 real estate eviction lawsuits against defaulting clients. In addition, the Company maintains 185 promissory notes amounting to SR 89,492,876, which are under processing before the Execution Court. For more information, see Table No. (12-13), (12-14) and (12-15) A Summary of the Lawsuits Against the Company as on 01/06/2021G.

The members of the Board of Directors acknowledge that there are no judicial disputes, real or potential cases, complaints, or existing investigation procedures that may, collectively or individually, have a material impact on the Company. Also, the company has not been aware of any substantial judicial disputes currently underway or potential or facts that may, collectively or individually, result in a risk of material dispute, except for what has been mentioned in the prospectus.

Also, the names of clients or other parties were not mentioned in the cases in order to preserve the confidentiality of the Company's information, and in accordance with Article 88 of the Implementing Regulations of the Finance Companies Control Law.

Table 12-13: Summary of the cases pending against the Company before the Committee for the Resolution of Violations and Financing Disputes as on 28/06/2021G

| | Plaintiff | Defendant | Date of the Case | Subject of the Case | Status of the Case |
|---|---|---|---|---|---|
| 1 | Client | The Company | 24/10/2018 | Contract dispute | Awaiting for hearing |
| 2 | Client | The Company | 13/02/2019 | SAIBOR Dispute | Work is ongoing to prepare the accounting report |
| 3 | Client | The Company | 28/02/2019 | SAIBOR Dispute | Awaiting for hearing |
| 4 | Client | The Company | 13/01/2021 | SAIBOR Dispute | Awaiting the date of hearing |
| 5 | Client | The Company | 12/10/2020 | SAIBOR Dispute | Awaiting the date of hearing |
| 6 | Client | The Company | 23/07/2020 | SAIBOR Dispute | Awaiting the date of hearing |
| 7 | Client | The Company | 18/06/2019 | SAIBOR Dispute | Awaiting the date of hearing |
| 8 | Client | The Company | 19/08/2019 | SAIBOR Dispute | Awaiting the date of hearing |

| | Plaintiff | Defendant | Date of the Case | Subject of the Case | Status of the Case |
|---|---|---|---|---|---|
| 9 | Client | The Company | 10/6/2019 | SAIBOR Dispute | Awaiting the date of hearing |
| 10 | Client | The Company | 4/8/2020 | SAIBOR Dispute | Awaiting the date of hearing |
| 11 | Client | The Company | 17/02/2019 | Contract dispute | Awaiting the date of hearing |
| 12 | Client | The Company | 20/01/2021 | Contract dispute | Awaiting the date of hearing |
| 13 | Client | The Company | 27/03/2018 | SAIBOR Dispute | Awaiting the date of hearing |
| 14 | Client | The Company | 26/11/2020 | SAIBOR Dispute | Awaiting the date of hearing |
| 15 | Client | The Company | 24/01/2019 | SAIBOR Dispute | Awaiting documents from the parties |
| 16 | Client | The Company | 29/12/2019 | SAIBOR Dispute | Awaiting documents from the parties |
| 17 | Client | The Company | 11/1/2017 | Contract termination | Need documents from the plaintiff |
| 18 | Client | The Company | 3/9/2018 | SAIBOR Dispute | Exchange of Notes |
| 19 | Client | The Company | 16/05/2017 | Contract dispute | Exchange of Notes |
| 20 | Client | The Company | 19/11/2018 | Plaintiff - Contract Termination | Exchange of Notes |
| 21 | Client | The Company | 8/1/2017 | SAIBOR Dispute | Exchange of Notes |
| 22 | Client | The Company | 8/1/2017 | SAIBOR Dispute | Exchange of Notes |
| 23 | Client | The Company | 5/1/2019 | SAIBOR Dispute | Exchange of Notes |
| 24 | Client | The Company | 28/05/2018 | SAIBOR Dispute | Exchange of Notes |
| 25 | Client | The Company | 9/12/2018 | SAIBOR Dispute | Exchange of Notes |
| 26 | Client | The Company | 1/7/2019 | SAIBOR Dispute | Exchange of Notes |
| 27 | Client | The Company | 14/03/2018 | SAIBOR Dispute | Exchange of Notes |
| 28 | Client | The Company | 4/9/2018 | SAIBOR Dispute | Exchange of Notes |

| Plaintiff | | Defendant | Date of the Case | Subject of the Case | Status of the Case |
|---|---|---|---|---|---|
| 29 | Client | The Company | 20/01/2020 | SAIBOR Dispute | Exchange of Notes |
| 30 | Client | The Company | 6/2/2019 | SAIBOR Dispute | Exchange of Notes |
| 31 | Client | The Company | 17/02/2019 | SAIBOR Dispute | Exchange of Notes |
| 32 | Client | The Company | 11/1/2017 | Contract Termination | Exchange of Notes |
| 33 | Client | The Company | 18/01/2019 | SAIBOR Dispute | Exchange of Notes |
| 34 | Client | The Company | 5/11/2018 | Contract dispute | Exchange of Notes |
| 35 | Client | The Company | 28/06/2019 | SAIBOR Dispute | Exchange of Notes |
| 36 | Client | The Company | 31/12/2020 | SAIBOR Dispute | Exchange of Notes |
| 37 | Client | The Company | 13/01/2021 | SAIBOR Dispute | Exchange of Notes |
| 38 | Client | The Company | 9/1/2017 | Contract dispute | Awaiting for hearing |
| 39 | Client | The Company | 17/04/2017 | Contract dispute | Awaiting for hearing |
| 40 | Client | The Company | 18/04/2018 | SAIBOR Dispute | Awaiting the date of hearing |
| 41 | Client | The Company | 4/8/2020 | SAIBOR Dispute | Awaiting the date of hearing |
| 42 | Client | The Company | 17/08/2019 | SAIBOR Dispute | Awaiting the date of hearing |
| 43 | Client | The Company | 20/09/2020 | SAIBOR Dispute | Awaiting the date of hearing |
| 44 | Client | The Company | 22/12/2019 | Contract dispute | Exchange of Notes |
| 45 | Client | The Company | 31/05/2020 | SAIBOR Dispute | Exchange of Notes |
| 46 | Client | The Company | 28/08/2019 | Contract dispute | Exchange of Notes |
| 47 | Client | The Company | 13/01/2021 | SAIBOR Dispute | Exchange of Notes |
| 48 | Client | The Company | 5/3/2017 | Contract termination | Notify the defendant |

| Plaintiff | | Defendant | Date of the Case | Subject of the Case | Status of the Case |
|---|---|---|---|---|---|
| 49 | Client | The Company | 6/2/2019 | SAIBOR Dispute | Awaiting for hearing |
| 50 | Client | The Company | 5/7/2018 | SAIBOR Dispute | Awaiting for hearing |
| 51 | Client | The Company | 12/3/2018 | Contract dispute | Awaiting for hearing |
| 52 | Client | The Company | 21/10/2019 | Contract dispute | Awaiting for hearing |
| 53 | Client | The Company | 10/10/2017 | Contract dispute | Awaiting for hearing |
| 54 | Client | The Company | 3/3/2019 | SAIBOR Dispute | Awaiting for hearing |

Source: The Company

### 12-14-4 Disputes related to customer default and implementation issues

The Company has a number of defaulting clients associated with the Company with a number of one hundred and eighty-five (185) contracts until the date of 30/06/2021G. The total amounts of defaulted payments are forty-four million seven hundred and forty-six thousand four hundred and thirty-eight Saudi riyals (SR 44,746,438). The Company has submitted claims to the execution court in respect of all of them in order to be executed on the promissory note issued as a payment security.

Table 12-14: Summary of the existing lawsuits filed by the Company before the enforcement courts as on 28/06/2021G

| | Plaintiff | Defendant | Date of the Case | Subject of the Case | Financial effect based on the promissory note (SAR) | Status |
|---|---|---|---|---|---|---|
| 1 | Company | Client | 12/2/2019 | Financial default under promissory notes | 132,753.34 | Underway |
| 2 | Company | Client | 17/03/2018 | Financial default under promissory notes | 303,849.36 | Underway |
| 3 | Company | Client | 17/03/2018 | Financial default under promissory notes | 357,827.15 | Underway |
| 4 | Company | Client | 10/12/2019 | Financial default under promissory notes | 1,627,718.91 | Underway |
| 5 | Company | Client | 10/12/2019 | Financial default under promissory notes | 910,080.31 | Underway |
| 6 | Company | Client | 31/01/2017 | Financial default under promissory notes | 362,141.11 | Underway |
| 7 | Company | Client | 7/11/2017 | Financial default under promissory notes | 609,212.44 | Underway |
| 8 | Company | Client | 27/01/2019 | Financial default under promissory notes | 142,096.44 | Underway |
| 9 | Company | Client | 7/11/2018 | Financial default under promissory notes | 276,930.70 | Underway |
| 10 | Company | Client | 18/05/2016 | Financial default under promissory notes | 728,151.96 | Underway |
| 11 | Company | Client | 21/03/2019 | Financial default under promissory notes | 229,628.00 | Underway |
| 12 | Company | Client | 5/4/2017 | Financial default under promissory notes | 761,572.10 | Underway |
| 13 | Company | Client | 17/09/2019 | Financial default under promissory notes | 570,008.09 | Underway |
| 14 | Company | Client | 11/5/2017 | Financial default under promissory notes | 2,055,466.80 | Underway |
| 15 | Company | Client | 8/11/2018 | Financial default under promissory notes | 493,936.88 | Underway |
| 16 | Company | Client | 12/6/2017 | Financial default under promissory notes | 268,493.94 | Underway |
| 17 | Company | Client | 9/4/2017 | Financial default under promissory notes | 299,181.52 | Underway |
| 18 | Company | Client | 17/03/2018 | Financial default under promissory notes | 303,236.98 | Underway |

| Plaintiff | | Defendant | Date of the Case | Subject of the Case | Financial effect based on the promissory note (SAR) | Status |
|---|---|---|---|---|---|---|
| 19 | Company | Client | 17/07/2017 | Financial default under promissory notes | 653,101.13 | Underway |
| 20 | Company | Client | 27/02/2017 | Financial default under promissory notes | 553,426.53 | Underway |
| 21 | Company | Client | 29/11/2018 | Financial default under promissory notes | 833,451.39 | Underway |
| 22 | Company | Client | 10/4/2018 | Financial default under promissory notes | 1,498,242.83 | Underway |
| 23 | Company | Client | 17/03/2018 | Financial default under promissory notes | 1,070,450.68 | Underway |
| 24 | Company | Client | 4/3/2019 | Financial default under promissory notes | 241,389.11 | Underway |
| 25 | Company | Client | 23/10/2018 | Financial default under promissory notes | 267,213.56 | Underway |
| 26 | Company | Client | 17/10/2018 | Financial default under promissory notes | 583,202.69 | Underway |
| 27 | Company | Client | 8/4/2017 | Financial default under promissory notes | 1,038,962.39 | Underway |
| 28 | Company | Client | 8/11/2018 | Financial default under promissory notes | 163,704.73 | Underway |
| 29 | Company | Client | 27/02/2019 | Financial default under promissory notes | 193,823.04 | Underway |
| 30 | Company | Client | 25/02/2019 | Financial default under promissory notes | 1,029,083.47 | Underway |
| 31 | Company | Client | 3/4/2017 | Financial default under promissory notes | 657,911.46 | Underway |
| 32 | Company | Client | 25/01/2017 | Financial default under promissory notes | 99,832.57 | Underway |
| 33 | Company | Client | 4/2/2019 | Financial default under promissory notes | 111,577.08 | Underway |
| 34 | Company | Client | 5/9/2019 | Financial default under promissory notes | 285,247.57 | Underway |
| 35 | Company | Client | 5/9/2019 | Financial default under promissory notes | 152,492.95 | Underway |
| 36 | Company | Client | 25/02/2019 | Financial default under promissory notes | 166,307.08 | Underway |
| 37 | Company | Client | 3/3/2018 | Financial default under promissory notes | 249,956.97 | Underway |

| | Plaintiff | Defendant | Date of the Case | Subject of the Case | Financial effect based on the promissory note (SAR) | Status |
|---|---|---|---|---|---|---|
| 38 | Company | Client | 19/02/2017 | Financial default under promissory notes | 141,548.00 | Underway |
| 39 | Company | Client | 8/11/2018 | Financial default under promissory notes | 546,278.00 | Underway |
| 40 | Company | Client | 17/04/2018 | Financial default under promissory notes | 410,461.05 | Underway |
| 41 | Company | Client | 13/07/2019 | Financial default under promissory notes | 484,782.00 | Underway |
| 42 | Company | Client | 12/9/2019 | Financial default under promissory notes | 234,020.91 | Underway |
| 43 | Company | Client | 3/9/2019 | Financial default under promissory notes | 588,670.43 | Underway |
| 44 | Company | Client | 8/11/2018 | Financial default under promissory notes | 565,912.88 | Underway |
| 45 | Company | Client | 3/2/2019 | Financial default under promissory notes | 259,087.96 | Underway |
| 46 | Company | Client | 9/9/2019 | Financial default under promissory notes | 358,884.75 | Underway |
| 47 | Company | Client | 24/02/2019 | Financial default under promissory notes | 339,955.62 | Underway |
| 48 | Company | Client | 25/02/2019 | Financial default under promissory notes | 179,017.54 | Underway |
| 49 | Company | Client | 8/11/2018 | Financial default under promissory notes | 134,054.35 | Underway |
| 50 | Company | Client | 2/4/2017 | Financial default under promissory notes | 572,750.00 | Underway |
| 51 | Company | Client | 24/02/2019 | Financial default under promissory notes | 1,088,261.93 | Underway |
| 52 | Company | Client | 14/02/2019 | Financial default under promissory notes | 112,037.68 | Underway |
| 53 | Company | Client | 8/11/2018 | Financial default under promissory notes | 550,379.69 | Underway |
| 54 | Company | Client | 20/08/2019 | Financial default under promissory notes | 131,186.57 | Underway |
| 55 | Company | Client | 9/12/2019 | Financial default under promissory notes | 178,411.21 | Underway |
| 56 | Company | Client | 22/10/2019 | Financial default under promissory notes | 310,705.51 | Underway |

| | Plaintiff | Defendant | Date of the Case | Subject of the Case | Financial effect based on the promissory note (SAR) | Status |
|---|---|---|---|---|---|---|
| 57 | Company | Client | 6/4/2017 | Financial default under promissory notes | 238,296.18 | Underway |
| 58 | Company | Client | 4/11/2018 | Financial default under promissory notes | 249,927.86 | Underway |
| 59 | Company | Client | 25/02/2019 | Financial default under promissory notes | 100,937.50 | Underway |
| 60 | Company | Client | 27/03/2017 | Financial default under promissory notes | 169,583.43 | Underway |
| 61 | Company | Client | 22/04/2018 | Financial default under promissory notes | 432,062.97 | Underway |
| 62 | Company | Client | 11/11/2018 | Financial default under promissory notes | 209,687.50 | Underway |
| 63 | Company | Client | 25/02/2019 | Financial default under promissory notes | 316,887.95 | Underway |
| 64 | Company | Client | 11/11/2018 | Financial default under promissory notes | 152,494.62 | Underway |
| 65 | Company | Client | 3/3/2016 | Financial default under promissory notes | 298,120.44 | Underway |
| 66 | Company | Client | 22/04/2018 | Financial default under promissory notes | 1,079,773.78 | Underway |
| 67 | Company | Client | 11/11/2018 | Financial default under promissory notes | 156,586.92 | Underway |
| 68 | Company | Client | 6/2/2019 | Financial default under promissory notes | 185,735.82 | Underway |
| 69 | Company | Client | 15/10/2018 | Financial default under promissory notes | 705,627.91 | Underway |
| 70 | Company | Client | 6/11/2018 | Financial default under promissory notes | 723,217.00 | Underway |
| 71 | Company | Client | 20/08/2019 | Financial default under promissory notes | 88,330.00 | Underway |
| 72 | Company | Client | 18/06/2020 | Financial default under promissory notes | 226,367.12 | Underway |
| 73 | Company | Client | 6/11/2018 | Financial default under promissory notes | 220,986.59 | Underway |
| 74 | Company | Client | 5/9/2019 | Financial default under promissory notes | 1,377,040.00 | Underway |
| 75 | Company | Client | 11/11/2018 | Financial default under promissory notes | 771,136.43 | Underway |

| | Plaintiff | Defendant | Date of the Case | Subject of the Case | Financial effect based on the promissory note (SAR) | Status |
|---|---|---|---|---|---|---|
| 76 | Company | Client | 11/11/2018 | Financial default under promissory notes | 37,919.77 | Underway |
| 77 | Company | Client | 24/04/2018 | Financial default under promissory notes | 167,059.38 | Underway |
| 78 | Company | Client | 12/11/2018 | Financial default under promissory notes | 280,873.71 | Underway |
| 79 | Company | Client | 19/11/2015 | Financial default under promissory notes | 158,897.36 | Underway |
| 80 | Company | Client | 1/9/2019 | Financial default under promissory notes | 355,311.36 | Underway |
| 81 | Company | Client | 1/9/2019 | Financial default under promissory notes | 154,891.83 | Underway |
| 82 | Company | Client | 226/02/2017 | Financial default under promissory notes | 201,306.98 | Underway |
| 83 | Company | Client | 30/09/2019 | Financial default under promissory notes | 250,964.00 | Underway |
| 84 | Company | Client | 15/01/2020 | Financial default under promissory notes | 127,170.17 | Underway |
| 85 | Company | Client | 16/07/2017 | Financial default under promissory notes | 679,242.37 | Underway |
| 86 | Company | Client | 25/04/2019 | Financial default under promissory notes | 133,481.05 | Underway |
| 87 | Company | Client | 25/04/2018 | Financial default under promissory notes | 70,755.33 | Underway |
| 88 | Company | Client | 5/1/2020 | Financial default under promissory notes | 157,335.66 | Underway |
| 89 | Company | Client | 8/1/2020 | Financial default under promissory notes | 143,031.36 | Underway |
| 90 | Company | Client | 24/02/2019 | Financial default under promissory notes | 669,731.79 | Underway |
| 91 | Company | Client | 1/9/2019 | Financial default under promissory notes | 43,211.78 | Underway |
| 92 | Company | Client | 19/12/2019 | Financial default under promissory notes | 309,345.11 | Underway |
| 93 | Company | Client | 24/02/2020 | Financial default under promissory notes | 195,033.37 | Underway |
| 94 | Company | Client | 5/1/2020 | Financial default under promissory notes | 215,430.68 | Underway |

| | Plaintiff | Defendant | Date of the Case | Subject of the Case | Financial effect based on the promissory note (SAR) | Status |
|---|---|---|---|---|---|---|
| 95 | Company | Client | 9/9/2019 | Financial default under promissory notes | 272,566.11 | Underway |
| 96 | Company | Client | 27/02/2020 | Financial default under promissory notes | 261,537.70 | Underway |
| 97 | Company | Client | 24/02/2020 | Financial default under promissory notes | 157,129.50 | Underway |
| 98 | Company | Client | 24/02/2020 | Financial default under promissory notes | 44,074.92 | Underway |
| 99 | Company | Client | 5/1/2020 | Financial default under promissory notes | 401,789.67 | Underway |
| 100 | Company | Client | 22/03/2020 | Financial default under promissory notes | 237,725.44 | Underway |
| 101 | Company | Client | 1/9/2019 | Financial default under promissory notes | 197,411.86 | Underway |
| 102 | Company | Client | 1/9/2019 | Financial default under promissory notes | 7,579.18 | Underway |
| 103 | Company | Client | 1/9/2019 | Financial default under promissory notes | 186,710.30 | Underway |
| 104 | Company | Client | 20/07/2020 | Financial default under promissory notes | 55,941.05 | Underway |
| 105 | Company | Client | 12/7/2020 | Financial default under promissory notes | 165,781.68 | Underway |
| 106 | Company | Client | 4/2/2019 | Financial default under promissory notes | 71,506.44 | Underway |
| 107 | Company | Client | 15/06/2020 | Financial default under promissory notes | 79,126.11 | Underway |
| 108 | Company | Client | 1/12/2019 | Financial default under promissory notes | 49,356.09 | Underway |
| 109 | Company | Client | 1/9/2019 | Financial default under promissory notes | 79,200.42 | Underway |
| 110 | Company | Client | 28/06/2020 | Financial default under promissory notes | 40,598.00 | Underway |
| 111 | Company | Client | 25/02/2020 | Financial default under promissory notes | 41,869.46 | Underway |
| 112 | Company | Client | 29/06/2020 | Financial default under promissory notes | 33,294.82 | Underway |
| 113 | Company | Client | 16/02/2020 | Financial default under promissory notes | 72,686.97 | Underway |

| | Plaintiff | Defendant | Date of the Case | Subject of the Case | Financial effect based on the promissory note (SAR) | Status |
|---|---|---|---|---|---|---|
| 114 | Company | Client | 16/06/2020 | Financial default under promissory notes | 21,959.86 | Underway |
| 115 | Company | Client | 16/06/2020 | Financial default under promissory notes | 77,451.09 | Underway |
| 116 | Company | Client | 16/06/2020 | Financial default under promissory notes | 95,401.46 | Underway |
| 117 | Company | Client | 16/06/2020 | Financial default under promissory notes | 45,727.70 | Underway |
| 118 | Company | Client | 29/11/2018 | Financial default under promissory notes | 75,440.52 | Underway |
| 119 | Company | Client | 19/07/2020 | Financial default under promissory notes | 31,128.00 | Underway |
| 120 | Company | Client | 16/06/2020 | Financial default under promissory notes | 35,786.51 | Underway |
| 121 | Company | Client | 3/2/2019 | Financial default under promissory notes | 39,797.00 | Underway |
| 122 | Company | Client | 3/2/2019 | Financial default under promissory notes | 19,756.00 | Underway |
| 123 | Company | Client | 8/10/2020 | Financial default under promissory notes | 85,113.52 | Underway |
| 124 | Company | Client | 21/10/2020 | Financial default under promissory notes | 35,557.58 | Underway |
| 125 | Company | Client | 21/07/2020 | Financial default under promissory notes | 55,568.11 | Underway |
| 126 | Company | Client | 3/2/2019 | Financial default under promissory notes | 248,946.92 | Underway |
| 127 | Company | Client | 21/10/2020 | Financial default under promissory notes | 55,561.98 | Underway |
| 128 | Company | Client | 3/2/2019 | Financial default under promissory notes | 29,706.60 | Underway |
| 129 | Company | Client | 24/02/2020 | Financial default under promissory notes | 34,465.59 | Underway |
| 130 | Company | Client | 18/11/2018 | Financial default under promissory notes | 20,696.36 | Underway |
| 131 | Company | Client | 18/11/2018 | Financial default under promissory notes | 24,787.96 | Underway |
| 132 | Company | Client | 25/02/2019 | Financial default under promissory notes | 60,076.78 | Underway |

| | Plaintiff | Defendant | Date of the Case | Subject of the Case | Financial effect based on the promissory note (SAR) | Status |
|---|---|---|---|---|---|---|
| 133 | Company | Client | 3/4/2020 | Financial default under promissory notes | 48,635.20 | Underway |
| 134 | Company | Client | 27/02/2020 | Financial default under promissory notes | 14,099.29 | Underway |
| 135 | Company | Client | 18/11/2018 | Financial default under promissory notes | 56,241.00 | Underway |
| 136 | Company | Client | 18/11/2018 | Financial default under promissory notes | 42,808.49 | Underway |
| 137 | Company | Client | 18/11/2018 | Financial default under promissory notes | 87,410.01 | Underway |
| 138 | Company | Client | 18/11/2018 | Financial default under promissory notes | 47,659.88 | Underway |
| 139 | Company | Client | 4/2/2019 | Financial default under promissory notes | 38,451.07 | Underway |
| 140 | Company | Client | 20/10/2020 | Financial default under promissory notes | 54,171.19 | Underway |
| 141 | Company | Client | 3/4/2020 | Financial default under promissory notes | 88,040.08 | Underway |
| 142 | Company | Client | 18/02/2019 | Financial default under promissory notes | 20,664.37 | Underway |
| 143 | Company | Client | 31/10/2018 | Financial default under promissory notes | 38,043.15 | Underway |
| 144 | Company | Client | 21/10/2019 | Financial default under promissory notes | 36,572.32 | Underway |
| 145 | Company | Client | 21/06/2020 | Financial default under promissory notes | 29,385.04 | Underway |
| 146 | Company | Client | 21/07/2020 | Financial default under promissory notes | 5,650.00 | Underway |
| 147 | Company | Client | 9/1/2020 | Financial default under promissory notes | 27,520.08 | Underway |
| 148 | Company | Client | 31/03/2020 | Financial default under promissory notes | 24,261.79 | Underway |
| 149 | Company | Client | 28/06/2020 | Financial default under promissory notes | 64,605.66 | Underway |
| 150 | Company | Client | 28/06/2020 | Financial default under promissory notes | 57,105.53 | Underway |
| 151 | Company | Client | 7/11/2018 | Financial default under promissory notes | 7,718.69 | Underway |

| Plaintiff | | Defendant | Date of the Case | Subject of the Case | Financial effect based on the promissory note (SAR) | Status |
|---|---|---|---|---|---|---|
| 152 | Company | Client | 28/06/2020 | Financial default under promissory notes | 22,973.89 | Underway |
| 153 | Company | Client | 19/02/2020 | Financial default under promissory notes | 39,700.46 | Underway |
| 154 | Company | Client | 19/02/2020 | Financial default under promissory notes | 32,247.87 | Underway |
| 155 | Company | Client | 15/06/2020 | Financial default under promissory notes | 16,902.51 | Underway |
| 156 | Company | Client | 19/11/2019 | Financial default under promissory notes | 49,437.10 | Underway |
| 157 | Company | Client | 4/6/2020 | Financial default under promissory notes | 108,739.52 | Underway |
| 158 | Company | Client | 2/12/2019 | Financial default under promissory notes | 52,891.00 | Underway |
| 159 | Company | Client | 20/07/2020 | Financial default under promissory notes | 28,931.74 | Underway |
| 160 | Company | Client | 20/07/2020 | Financial default under promissory notes | 18,383.57 | Underway |
| 161 | Company | Client | 24/10/2017 | Financial default under promissory notes | 71,569.56 | Underway |
| 162 | Company | Client | 25/06/2020 | Financial default under promissory notes | 70,368.66 | Underway |
| 163 | Company | Client | 24/02/2020 | Financial default under promissory notes | 24,869.64 | Underway |
| 164 | Company | Client | 29/06/2020 | Financial default under promissory notes | 26,844.08 | Underway |
| 165 | Company | Client | 29/06/2020 | Financial default under promissory notes | 19,836.32 | Underway |
| 166 | Company | Client | 29/06/2020 | Financial default under promissory notes | 6,273.05 | Underway |
| 167 | Company | Client | 29/06/2020 | Financial default under promissory notes | 22,675.00 | Underway |
| 168 | Company | Client | 29/06/2020 | Financial default under promissory notes | 7,029.59 | Underway |
| 169 | Company | Client | 17/06/2020 | Financial default under promissory notes | 33,703.02 | Underway |
| 170 | Company | Client | 14/07/2020 | Financial default under promissory notes | 7,249.45 | Underway |

| Plaintiff | | Defendant | Date of the Case | Subject of the Case | Financial effect based on the promissory note (SAR) | Status |
|---|---|---|---|---|---|---|
| 171 | Company | Client | 14/07/2020 | Financial default under promissory notes | 21,305.71 | Underway |
| 172 | Company | Client | 29/06/2020 | Financial default under promissory notes | 19,149.36 | Underway |
| 173 | Company | Client | 5/11/2018 | Financial default under promissory notes | 24,336.16 | Underway |
| 174 | Company | Client | 10/4/2017 | Financial default under promissory notes | 11,283.91 | Underway |
| 175 | Company | Client | 24/02/2019 | Financial default under promissory notes | 8,072.24 | Underway |
| 176 | Company | Client | 28/11/2018 | Financial default under promissory notes | 11,786.84 | Underway |
| 177 | Company | Client | 8/11/2020 | Financial default under promissory notes | 14,518.00 | Underway |
| 178 | Company | Client | 24/02/2020 | Financial default under promissory notes | 16,971.68 | Underway |
| 179 | Company | Client | 29/03/2020 | Financial default under promissory notes | 13,725.23 | Underway |
| 180 | Company | Client | 21/07/2020 | Financial default under promissory notes | 23,357.19 | Underway |
| 181 | Company | Client | 30/06/2020 | Financial default under promissory notes | 7,124.74 | Underway |
| 182 | Company | Client | 07/02/207 | Financial default under promissory notes | 14,593.87 | Underway |
| 183 | Company | Client | 7/11/2018 | Financial default under promissory notes | 9,684.94 | Underway |
| 184 | Company | Client | 8/11/2020 | Financial default under promissory notes | 21,692.00 | Underway |
| 185 | Company | Client | 28/02/2017 | Financial default under promissory notes | 18,928.02 | Underway |

Table 12-15: Summary of defaulting customers' information as on 28/06/2021G

| | Plaintiff | Defendant | Date of the Case | Subject of the Case | Financial Impact (SAR) | Status |
|---|---|---|---|---|---|---|
| 1 | Company | Client | 19/12/2017 | Evacuation of a Property | 132,753.34 | Underway |
| 2 | Company | Client | 4/7/2016 | Evacuation of a Property | 303,849.36 | Underway |
| 3 | Company | Client | 4/3/2019 | Evacuation of a Property | 357,827.15 | Underway |
| 4 | Company | Client | 6/1/2019 | Evacuation of a Property | 1,627,718.91 | Underway |
| 5 | Company | Client | 10/12/2020 | Evacuation of a Property | 910,080.31 | Underway |
| 6 | Company | Client | 7/3/2019 | Evacuation of a Property | 362,141.11 | Underway |
| 7 | Company | Client | 15/01/2019 | Evacuation of a Property | 609,212.44 | Underway |
| 8 | Company | Client | 13/11/2018 | Evacuation of a Property | 142,096.44 | Underway |
| 9 | Company | Client | 12/3/2019 | Evacuation of a Property | 6,453.91 | Underway |
| 10 | Company | Client | 10/9/2020 | Evacuation of a Property | 276,930.70 | Underway |
| 11 | Company | Client | 28/12/2017 | Evacuation of a Property | 728,151.96 | Underway |
| 12 | Company | Client | 4/3/2019 | Evacuation of a Property | 229,628.00 | Underway |
| 13 | Company | Client | 3/12/2017 | Evacuation of a Property | 570,008.09 | Underway |
| 14 | Company | Client | 27/03/2018 | Evacuation of a Property | 761,572.10 | Underway |
| 15 | Company | Client | 12/12/2017 | Evacuation of a Property | 2,055,466.80 | Underway |
| 16 | Company | Client | 28/07/2016 | Evacuation of a Property | 493,936.88 | Underway |
| 17 | Company | Client | 4/3/2019 | Evacuation of a Property | 268,493.94 | Underway |
| 18 | Company | Client | 19/12/2017 | Evacuation of a Property | 299,181.52 | Underway |
| 19 | Company | Client | 6/1/2019 | Evacuation of a Property | 303,236.98 | Underway |
| 20 | Company | Client | 26/03/2019 | Evacuation of a Property | 653,101.13 | Underway |
| 21 | Company | Client | 3/4/2019 | Evacuation of a Property | 553,426.53 | Underway |
| 22 | Company | Client | 28/02/2019 | Evacuation of a Property | 833,451.39 | Underway |
| 23 | Company | Client | 11/3/2018 | Evacuation of a Property | 1,498,242.83 | Underway |
| 24 | Company | Client | 24/11/2020 | Evacuation of a Property | 1,070,450.68 | Underway |
| 25 | Company | Client | 6/10/2020 | Evacuation of a Property | 241,389.11 | Underway |

| Plaintiff | | Defendant | Date of the Case | Subject of the Case | Financial Impact (SAR) | Status |
|---|---|---|---|---|---|---|
| 26 | Company | Client | 24/11/2020 | Evacuation of a Property | 267,213.56 | Underway |
| 27 | Company | Client | 22/12/2020 | Evacuation of a Property | 583,202.69 | Underway |
| 28 | Company | Client | 6/1/2019 | Evacuation of a Property | 520,224.00 | Underway |
| 29 | Company | Client | 28/02/2019 | Evacuation of a Property | 1,038,962.39 | Underway |
| 30 | Company | Client | 7/5/2020 | Evacuation of a Property | 163,704.73 | Underway |
| 31 | Company | Client | 7/5/2020 | Evacuation of a Property | 193,823.04 | Underway |
| 32 | Company | Client | 22/12/2020 | Evacuation of a Property | 1,029,083.47 | Underway |
| 33 | Company | Client | 5/11/2017 | Evacuation of a Property | 657,911.46 | Underway |
| 34 | Company | Client | 24/11/2020 | Evacuation of a Property | 99,832.57 | Underway |
| 35 | Company | Client | 26/04/2021 | Evacuation of a Property | 111,577.08 | Underway |
| 36 | Company | Client | 6/10/2019 | Evacuation of a Property | 152,492.95 | Underway |
| 37 | Company | Client | 7/10/2020 | Evacuation of a Property | 285,247.57 | Underway |
| 38 | Company | Client | 9/9/2020 | Evacuation of a Property | 166,307.08 | Underway |
| 39 | Company | Client | 1/10/2020 | Evacuation of a Property | 249,956.97 | Underway |
| 40 | Company | Client | 6/10/2020 | Evacuation of a Property | 141,548.00 | Underway |
| 41 | Company | Client | 9/9/2020 | Evacuation of a Property | 546,278.00 | Underway |
| 42 | Company | Client | 7/5/2020 | Evacuation of a Property | 410,461.05 | Underway |
| 43 | Company | Client | 7/5/2020 | Evacuation of a Property | 484,782.00 | Underway |
| 44 | Company | Client | 7/10/2020 | Evacuation of a Property | 234,020.91 | Underway |
| 45 | Company | Client | 7/5/2020 | Evacuation of a Property | 588,670.43 | Underway |
| 46 | Company | Client | 29/09/2019 | Evacuation of a Property | 565,912.88 | Underway |
| 47 | Company | Client | 14/03/2021 | Evacuation of a Property | 259,087.96 | Underway |
| 48 | Company | Client | 22/02/2021 | Evacuation of a Property | 358,884.75 | Underway |
| 49 | Company | Client | 22/02/2021 | Evacuation of a Property | 339,955.62 | Underway |
| 50 | Company | Client | 7/5/2020 | Evacuation of a Property | 134,054.35 | Underway |
| 51 | Company | Client | 9/9/2020 | Evacuation of a Property | 179,017.54 | Underway |

| | Plaintiff | Defendant | Date of the Case | Subject of the Case | Financial Impact (SAR) | Status |
|---|---|---|---|---|---|---|
| 52 | Company | Client | 7/5/2020 | Evacuation of a Property | 112,037.68 | Underway |
| 53 | Company | Client | 7/1/2021 | Evacuation of a Property | 550,379.69 | Underway |
| 54 | Company | Client | 7/10/2020 | Evacuation of a Property | 1,088,261.93 | Underway |
| 55 | Company | Client | 22/12/2020 | Evacuation of a Property | 572,750.00 | Underway |
| 56 | Company | Client | 10/5/2020 | Evacuation of a Property | 131,186.57 | Underway |
| 57 | Company | Client | 4/10/2020 | Evacuation of a Property | 178,411.21 | Underway |
| 58 | Company | Client | 8/3/2021 | Evacuation of a Property | 238,296.18 | Underway |
| 59 | Company | Client | 22/12/2020 | Evacuation of a Property | 310,705.51 | Underway |
| 60 | Company | Client | 29/09/2020 | Evacuation of a Property | 100,937.50 | Underway |
| 61 | Company | Client | 3/4/2021 | Evacuation of a Property | 249,927.86 | Underway |
| 62 | Company | Client | 22/04/2018 | Evacuation of a Property | 169,583.43 | Underway |
| 63 | Company | Client | 3/4/2021 | Evacuation of a Property | 432,062.97 | Underway |
| 64 | Company | Client | 10/5/2020 | Evacuation of a Property | 209,687.50 | Underway |
| 65 | Company | Client | 20/09/2020 | Evacuation of a Property | 316,887.95 | Underway |
| 66 | Company | Client | 15/11/2020 | Evacuation of a Property | 152,494.62 | Underway |
| 67 | Company | Client | 24/01/2021 | Evacuation of a Property | 298,120.44 | Underway |
| 68 | Company | Client | 10/5/2020 | Evacuation of a Property | 1,079,773.78 | Underway |
| 69 | Company | Client | 22/12/2020 | Evacuation of a Property | 156,586.92 | Underway |
| 70 | Company | Client | 15/11/2020 | Evacuation of a Property | 185,735.82 | Underway |
| 71 | Company | Client | 10/5/2020 | Evacuation of a Property | 705,627.91 | Underway |
| 72 | Company | Client | 7/5/2020 | Evacuation of a Property | 88,330.00 | Underway |
| 73 | Company | Client | 29/09/2019 | Evacuation of a Property | 723,217.00 | Underway |
| 74 | Company | Client | 10/5/2020 | Evacuation of a Property | 226,367.12 | Underway |
| 75 | Company | Client | 9/5/2020 | Evacuation of a Property | 220,986.59 | Underway |
| 76 | Company | Client | 5/1/2020 | Evacuation of a Property | 1,377,040.00 | Underway |
| 77 | Company | Client | 7/10/2020 | Evacuation of a Property | 37,919.77 | Underway |

| Plaintiff | | Defendant | Date of the Case | Subject of the Case | Financial Impact (SAR) | Status |
|---|---|---|---|---|---|---|
| 78 | Company | Client | 7/10/2020 | Evacuation of a Property | 771,136.43 | Underway |
| 79 | Company | Client | 7/5/2020 | Evacuation of a Property | 167,059.38 | Underway |
| 80 | Company | Client | 2/3/2021 | Evacuation of a Property | 280,873.71 | Underway |
| 81 | Company | Client | 6/10/2020 | Evacuation of a Property | 158,897.36 | Underway |
| 82 | Company | Client | 22/11/2020 | Evacuation of a Property | 355,311.36 | Underway |
| 83 | Company | Client | 11/7/2020 | Evacuation of a Property | 154,891.83 | Underway |
| 84 | Company | Client | 10/12/2017 | Evacuation of a Property | 201,306.98 | Underway |
| 85 | Company | Client | 18/02/2021 | Evacuation of a Property | 250,964.00 | Underway |
| 86 | Company | Client | 7/5/2020 | Evacuation of a Property | 127,170.17 | Underway |
| 87 | Company | Client | 1/10/2020 | Evacuation of a Property | 679,242.37 | Underway |
| 88 | Company | Client | 23/11/2020 | Evacuation of a Property | 133,481.05 | Underway |
| 89 | Company | Client | 11/11/2020 | Evacuation of a Property | 70,755.33 | Underway |
| 90 | Company | Client | 28/10/2020 | Evacuation of a Property | 157,335.66 | Underway |
| 91 | Company | Client | 16/11/2020 | Evacuation of a Property | 143,031.36 | Underway |
| 92 | Company | Client | 26/01/2021 | Evacuation of a Property | 669,731.79 | Underway |
| 93 | Company | Client | 10/5/2020 | Evacuation of a Property | 309,345.11 | Underway |
| 94 | Company | Client | 16/11/2020 | Evacuation of a Property | 43,211.78 | Underway |
| 95 | Company | Client | 28/03/2021 | Evacuation of a Property | 215,430.68 | Underway |
| 96 | Company | Client | 28/10/2020 | Evacuation of a Property | 195,033.37 | Underway |
| 97 | Company | Client | 11/7/2020 | Evacuation of a Property | 272,566.11 | Underway |
| 98 | Company | Client | 29/04/2020 | Evacuation of a Property | 157,129.50 | Underway |
| 99 | Company | Client | 16/11/2020 | Evacuation of a Property | 261,537.70 | Underway |
| 100 | Company | Client | 16/11/2020 | Evacuation of a Property | 44,074.92 | Underway |
| 101 | Company | Client | 20/10/2020 | Evacuation of a Property | 401,789.67 | Underway |
| 102 | Company | Client | 16/11/2020 | Evacuation of a Property | 237,725.44 | Underway |
| 103 | Company | Client | 18/11/2020 | Evacuation of a Property | 197,411.86 | Underway |

| | Plaintiff | Defendant | Date of the Case | Subject of the Case | Financial Impact (SAR) | Status |
|---|---|---|---|---|---|---|
| 104 | Company | Client | 21/11/2020 | Evacuation of a Property | 7,579.18 | Underway |
| 105 | Company | Client | 1/10/2020 | Evacuation of a Property | 55,941.05 | Underway |
| 106 | Company | Client | 6/10/2020 | Evacuation of a Property | 71,506.44 | Underway |
| 107 | Company | Client | 25/11/2020 | Evacuation of a Property | 165,781.68 | Underway |
| 108 | Company | Client | 16/11/2020 | Evacuation of a Property | 186,710.30 | Underway |
| 109 | Company | Client | 10/9/2020 | Evacuation of a Property | 79,126.11 | Underway |
| 110 | Company | Client | 20/10/2020 | Evacuation of a Property | 49,356.09 | Underway |
| 111 | Company | Client | 21/01/2021 | Evacuation of a Property | 33,294.82 | Underway |
| 112 | Company | Client | 16/11/2020 | Evacuation of a Property | 40,598.00 | Underway |
| 113 | Company | Client | 3/2/2021 | Evacuation of a Property | 41,869.46 | Underway |
| 114 | Company | Client | 29/09/2020 | Evacuation of a Property | 79,200.42 | Underway |
| 115 | Company | Client | 21/03/2021 | Evacuation of a Property | 72,686.97 | Underway |
| 116 | Company | Client | 6/11/2020 | Evacuation of a Property | 77,451.09 | Underway |
| 117 | Company | Client | 20/06/2020 | Evacuation of a Property | 21,959.86 | Underway |
| 118 | Company | Client | 27/12/2020 | Evacuation of a Property | 45,727.70 | Underway |
| 119 | Company | Client | 29/09/2020 | Evacuation of a Property | 95,401.46 | Underway |
| 120 | Company | Client | 18/11/2020 | Evacuation of a Property | 75,440.52 | Underway |
| 121 | Company | Client | 22/06/2020 | Evacuation of a Property | 31,128.00 | Underway |
| 122 | Company | Client | 16/11/2020 | Evacuation of a Property | 35,786.51 | Underway |
| 123 | Company | Client | 16/11/2020 | Evacuation of a Property | 39,797.00 | Underway |
| 124 | Company | Client | 19/11/2020 | Evacuation of a Property | 85,113.52 | Underway |
| 125 | Company | Client | 16/11/2020 | Evacuation of a Property | 19,756.00 | Underway |
| 126 | Company | Client | 19/01/2021 | Evacuation of a Property | 35,557.58 | Underway |
| 127 | Company | Client | 18/02/2021 | Evacuation of a Property | 55,568.11 | Underway |
| 128 | Company | Client | 26/01/2021 | Evacuation of a Property | 248,946.92 | Underway |
| 129 | Company | Client | 31/12/2020 | Evacuation of a Property | 55,561.98 | Underway |

| Plaintiff | | Defendant | Date of the Case | Subject of the Case | Financial Impact (SAR) | Status |
|---|---|---|---|---|---|---|
| 130 | Company | Client | 23/10/2020 | Evacuation of a Property | 48,635.20 | Underway |
| 131 | Company | Client | 6/6/2021 | Evacuation of a Property | 42,808.49 | Underway |
| 132 | Company | Client | 21/12/2020 | Evacuation of a Property | 56,241.00 | Underway |
| 133 | Company | Client | 23/11/2020 | Evacuation of a Property | 38,451.07 | Underway |
| 134 | Company | Client | 18/10/2020 | Evacuation of a Property | 88,040.08 | Underway |
| 135 | Company | Client | 22/07/2020 | Evacuation of a Property | 38,043.15 | Underway |
| 136 | Company | Client | 3/2/2021 | Evacuation of a Property | 54,171.19 | Underway |
| 137 | Company | Client | 7/5/2020 | Evacuation of a Property | 36,572.32 | Underway |
| 138 | Company | Client | 23/11/2020 | Evacuation of a Property | 5,650.00 | Underway |
| 139 | Company | Client | 25/01/2021 | Evacuation of a Property | 27,520.08 | Underway |
| 140 | Company | Client | 28/01/2021 | Evacuation of a Property | 24,261.79 | Underway |
| 141 | Company | Client | 31/12/2020 | Evacuation of a Property | 16,902.51 | Underway |
| 142 | Company | Client | 15/11/2020 | Evacuation of a Property | 49,437.10 | Underway |
| 143 | Company | Client | 3/2/2021 | Evacuation of a Property | 70,368.66 | Underway |
| 144 | Company | Client | 23/11/2020 | Evacuation of a Property | 6,273.05 | Underway |

## 12-15 Summary of the Articles of Association

### 12-15-1 Company name

Saudi Home Loans Company (Closed Joint Stock Company)

### 12-15-2 Company Purposes

The purpose of the Company is to carry out real estate financing - in accordance with the provisions of the Companies Law, the Finance Companies Control Law and its Implementing Regulations, related regulations, and the rules and instructions issued by the Saudi Central Bank. The Company conducts and implements the following purposes:

- Financing the purchase of homes, residential lands and apartments in the Kingdom of Saudi Arabia.
- Financing real estate that is developed by all companies working in the field of real estate development.
- Financing the establishment of commercial and industrial projects.
- Keeping and managing the transferred assets of the owners and third parties as a matter of securities, and it is also entitled to sell and buy real estate for the financing purposes for which was established, with the exception of Makkah and Madinah.

The Company carries out its activities in accordance with the applicable regulations and after obtaining the necessary licenses from the competent authorities, if any.

### 12-15-3 Head Office of the Company

The head office of the Company is located in Riyadh in the Kingdom of Saudi Arabia, and it may establish branches, offices or agencies for it inside or outside the Kingdom of Saudi Arabia by a decision of the Board of Directors after obtaining a written no-objection from the Central Bank of Saudi Arabia.

### 12-15-4 Participation and ownership in companies

After obtaining a written no-objection from the Central Bank of Saudi Arabia, the Company may have an interest or participate in any way with agencies or companies, or establish companies on its own that carry out business similar to its business or that may assist it in achieving its purposes, and it may own shares or stakes in these companies and with merge in or with it, or buy it, after fulfilling the requirements of the regulations and instructions followed in this regard.

### 12-15-5 Company Duration

The term of the Company is ninety-nine (99) Gregorian years starting from the date of its registration in the Commercial Register, and the term of the Company may always be extended by a decision issued by the Extraordinary General Assembly at least two years before the expiry of its term.

### 12-15-6 Company's capital

The Company's capital was set at (SAR 1,000,000,000) one billion Saudi riyals, divided into (100,000,000) one hundred million nominal shares of equal value, at (SR 10) ten Saudi riyals per share, all of which are ordinary cash shares.

### 12-15-7 Subscription to Shares

The Founding Shareholders subscribed to the entire capital shares, amounting to (100,000,000) one hundred million cash shares, the value of which is (1,000,000,000) one billion Saudi riyals. Its value has been paid in full, and the value was deposited in one of the licensed banks.

### 12-15-8 Sale of Unpaid shares

The shareholder is obligated to pay the value of the share on the dates specified for this, and if the shareholder fails to pay on the due date, the Board of Directors may, after being notified by a registered letter, sell the share in a public auction or the stock market in accordance with the controls determined by the competent authority.

The Company shall collect the amounts due to it from the sale proceeds and return the remainder to the shareholder. If the sale proceeds are not sufficient to meet these amounts, the Company may collect the remainder from all shareholder funds.

However, the shareholder who defaulted on payment until the day of the sale may pay the value owed by him in addition to the expenses incurred by the Company in this regard.

The Company cancels the sold share in accordance with the provisions of this article, gives the buyer a new share bearing the number of the canceled share, and indicates in the shares register that the sale took place with the name of the new owner.

### 12-15-9 Preferred Shares

The Extraordinary General Assembly of the Company may, according to the principles set by the competent authority, issue preferred shares or decide to purchase them, convert ordinary shares into preferred shares, or convert preferred shares into ordinary ones. Such preferred shares entitle their holders to obtain a greater percentage of the net profits than the ordinary shareholders of the Company's after setting aside the statutory reserve.

### 12-15-10 Issuance of shares

Shares are nominal and may not be issued for less than their nominal value. Rather, they may be issued for a higher value. In such a case, the difference in value is added in a separate item within shareholders' equity and may not be distributed as dividends to shareholders. The share is indivisible in the face of the Company. If the share is owned by multiple people, they must choose one of them to represent them in the use of the rights related to it, and these people are jointly responsible for the obligations arising from the ownership of the share.

### 12-15-11 The Company's purchase, sale and pledge of its shares

After obtaining approval of the Saudi Central Bank and with the approval of the Extraordinary General Assembly, the Company may purchase or mortgage its shares in accordance with the regulations set by the competent authority. The shares purchased by the Company do not have votes in the shareholders' assemblies, and the Company may purchase its shares for the purpose of allocating them to its employees within the employee shares program and in accordance with the controls issued by the competent authority. The company may also, with the approval of the Board of Directors and in a manner that does not contradict the decision of the Extraordinary General Assembly approving the purchase of those shares, sell treasury shares in one or several stages in accordance with the controls set by the competent authority.

### 12-15-12 Share Trading

The shares subscribed by the Founding Shareholders may not be traded until after the financial statements have been published for two fiscal years, each of which is not less than twelve (12) months from the date of the Company's incorporation. The instruments of these shares shall be marked with an indication of their type, date of incorporation of the Company, and the period during which trading is prohibited. However, during the lock-up period, the ownership of shares may be transferred in accordance with the provisions of the sale of rights from one of the founders to another founder or from the heirs of one of the founders in the event of his death to third parties or in the event of enforcement on the funds of the insolvent or bankrupt founder, provided that the priority of owning such shares is given to the other founders. The provisions of this Article shall apply to what the founders subscribe to in the event of an increase in the capital before the expiry of the lock-up period. In all cases, the founding shares may not be disposed of except after obtaining a no-objection from the Saudi Central Bank in writing in accordance with the provisions of Article 8 of the Finance Companies Control Law.

### 12-15-13 Shareholders Register

Without prejudice to the provisions of Article (Eighth) of the Finance Companies Control Law and Paragraph (Third) of Article (Tenth) of the Implementing Regulations of the Finance Companies Control Law, the Company's shares are traded by registering them in the shareholders register prepared by the Company or contracted to be prepared, which includes the names of shareholders, their nationalities, places of residence, occupations, share numbers and the amount paid out of them. This entry is indicated on the share, and the transfer of ownership of the nominal share in the face of the Company or third parties is only considered from the date of entry in the mentioned register.

### 12-15-14 Capital increase

1. The Extraordinary General Assembly may, after obtaining the prior written no-objection of the Central Bank of Saudi Arabia and after approval of the competent authorities, decide to increase the Company's capital, provided that the capital has been paid in full. It is not required that the capital has been paid in full if the unpaid part of the capital belongs to shares issued in exchange for converting debt instruments or financing instruments into shares and the period prescribed for their conversion into shares has not yet expired.
2. The Extraordinary General Assembly may, in all cases, allocate the shares issued upon the capital increase, or part thereof, to employees of the Company and its subsidiaries or some of them, or any of that. Shareholders may not exercise the pre-emptive right over the Company's issuance of shares allocated to employees.
3. The shareholder who owns the share at the time of the issuance of the Extraordinary General Assembly's decision approving the capital increase shall have the priority to subscribing to the new shares issued in exchange for cash shares, and they shall be informed of their priority by publication in a daily newspaper or by notifying them by registered mail of the decision to increase the capital, the terms of subscription, its duration and the date of its commencement and its end.
4. The Extraordinary General Assembly shall have the right to suspend the pre-emptive right of shareholders to subscribe to the capital increase in exchange for cash shares or to give priority to non-shareholders in the cases it deems appropriate for the interest of the Company.
5. The shareholder shall the right to sell or relinquish the pre-emptive right during the period from the time of the issuance of the General Assembly's decision approving the capital increase until the last day of subscribing to the new shares associated with these rights, in accordance with the regulations set by the competent authority.
6. Subject to the stipulation of Paragraph (4) above, the new shares shall be distributed to the rights holders who requested subscription, in proportion to their pre-emptive rights out of the total pre-emptive rights resulting from the capital increase, provided that what they receive does not exceed the shares they requested. The remainder of the new shares shall be distributed to the rights holders who requested more than their share, in proportion to their pre-emptive rights out of the total pre-emptive rights resulting from the capital increase, provided that what they receive does not exceed what they requested of the new shares, and the remaining shares will be offered to third parties, unless the Extraordinary General Assembly decides, or the Capital Market Law stipulates otherwise.

### 12-15-15 Capital Reduction

The Extraordinary General Assembly, based on acceptable justifications, and after obtaining the Central Bank of Saudi Arabia's prior no-objection in writing and after approval of the competent authorities, may decide to reduce the capital if it exceeds the Company's need or if it suffers losses. The reduction decision shall not be issued except after reading a special report prepared by the auditor on the reasons for it, the obligations of the Company, and the effect of the reduction on such obligations.

If the capital reduction is a result of it being more than the Company's need, the creditors must be invited to express their objections to it within sixty (60) days from the date of publishing the reduction decision in a daily newspaper distributed in the area in which the Company's head office is located. If one of the creditors objects and submits his documents to the Company on the aforementioned date, the Company must pay him his debt if it is immediate or provide him with a sufficient guarantee to pay it if it is deferred.

### 12-15-16 Board of Directors

The Company shall be managed by a Board of Directors consisting of eleven (11) members elected by the ordinary general assembly of shareholders for a period not exceeding (3) three years, after fulfilling the suitability requirements determined by the Central Bank of Saudi Arabia and obtaining a letter of no objection from SAMA.

Each shareholder has the right to nominate himself or one or more other persons for membership of the Board of Directors, within the limits of his ownership percentage in the capital.

### 12-15-17 Membership Expiry

Membership of the Board of Directors shall terminate upon the expiry of its term or upon the expiry of the member's validity thereto in accordance with any law, regulation, rule or instructions in force in the Kingdom of Saudi Arabia. Directorship of a Board member shall also terminate by resignation or death, or if it is proven to the Board of Directors that the member has breached his duties in a manner that harms the interest of the Company, provided that the termination shall be accompanied by the Ordinary General Assembly, or by his absence from more than three consecutive sessions without an excuse accepted by the Board of Directors, or if he is declared bankrupt or insolvent, or submits a request for settlement with his creditors, or stops paying his debts, suffers from a mental illness, or if it is proven that he committed an act contrary to honesty and morals. or was convicted of forgery. However, the Ordinary General Assembly may at any time dismiss all or some of the members of the Board of Directors, without prejudice to the right of the dismissed member towards the Company to claim compensation if the dismissal occurred for an unacceptable reason or at an inappropriate time. A member of the Board of Directors may retire, provided that it is at an appropriate time, otherwise he will be liable before the Company for the damages that result from his retirement.

### 12-15-18 Vacant position in the Board

After fulfilling the suitability requirements determined by the Central Bank of Saudi Arabia and obtaining a letter of no objection from it, if the position of a member of the Board of Directors becomes vacant, the board may appoint a temporary member in the vacant position at its discretion, provided that he shall who have the required experience and competence, and the Ministry of Commerce must be notified of this within five working days from the date of appointment and the appointment shall be presented to the Ordinary General Assembly in its first meeting, and the new member completes the term of his predecessor. If the necessary conditions for the meeting of the Board of Directors are not met due to the fact that the number of its members is less than the minimum necessary for the validity of its meetings, the rest of the members must invite the ordinary general assembly to convene within sixty days to elect the necessary number of members.

### 12-15-19 Powers of the Board of Directors

In a manner that does not conflict with the stipulations of the financing laws and their implementing regulations and with due regard to the competencies established for the General Assembly, the Board of Directors shall have the widest powers in managing the Company in order to achieve its purposes and conduct its affairs. To this end, he has the right to participate in other companies and dispose of their assets, property, and real estate, and he has the right to purchase, accept and pay the price, mortgage, release the mortgage, sell, transfer ownership, collect the price, deliver the price, combine and sort property and deeds, provided that with regard to the sale of the Company's real estate, the minutes of the board of directors and the rationale for its decision to act must be included. The following conditions shall be observed:

1. The board shall specify in the sale decision the reasons and justifications of the sale.
2. The sale shall be close to the price of similar items.
3. The sale be present except in the cases decided by the Board and with sufficient guarantees.
4. Such disposal shall not result in the suspension of some of the Company's activities or imposing on it other obligations.

The Board of Directors may enter into loans with government financing funds and institutions, regardless of their term, and may enter into commercial loans, taking into account the following conditions for entering into such loans whose terms exceed three years:

1. The Board of Directors shall specify in its decision the aspects of using the loan and method of repayment.
2. To take into account in the terms of the loan and the guarantees provided to it, not to harm the Company, its shareholders, and the general guarantees of the creditors.

The Board of Directors shall also have the right of compromise, assignment, contract, commitment and association in the name and on behalf of the Company, and the Board of Directors may carry out all acts and actions that would achieve the objectives of the Company.

The Company's Board of Directors, in the cases it deems appropriate, shall have the right to discharge the Company's debtors from their obligations in a manner that serves its interests, provided that the minutes of the Board of Directors shall include the rationale for its decision and the following conditions are observed:

1. The discharge shall be at least one full year after the initiation of the debt.
2. The discharge shall be for a specified amount as a maximum per year for one debtor.
3. Discharge is a right of the board, which may not be delegated.

Provided that the discharge is not in all cases related to discharging liability a board member, shareholders or any of the related parties of the Company, whether this relationship was direct or indirect.

The Board of Directors may delegate or authorize on its behalf, within the limits of its powers, one or more of its members or third parties to take a specific action or behavior or to perform a specific act or actions.

### 12-15-20 Remuneration of the Board members

The remuneration of the Board of Directors consists of a certain amount, certain benefits, or a certain percentage of net profits or retained earnings as determined by the Board of Directors and approved by the General Assembly, in addition to an attendance allowance and a transportation allowance as determined by the Board of Directors in accordance with the regulations, decisions and instructions in force in the Kingdom of Saudi Arabia The report of the Board of Directors to the Ordinary General Assembly must include a comprehensive statement of all the Board members received during the fiscal year in terms of remuneration, expense allowance and other benefits, and also include: A statement of what the members of the Council received in their capacity as workers or administrators, or what they received in return for technical or administrative work or consultancy, and that it also includes a statement of the number of Council sessions and the number of sessions attended by each member from the date of the last meeting of the General Assembly.

### 12-15-21 Powers of the Chairman, Deputy Charman, Managing Director and Secretary

After obtaining the Saudi Central Bank's prior no-objection in writing and after approval of the competent authorities, the Board of Directors appoints from among its members a chairman and a deputy chairman. The Board may appoint a Managing Director from among its members, and it is not permissible to combine the position of the Chairman of the Board of Directors with any other executive position in the Company.

The Chairman is vested with the powers that enable him to perform his task, in a manner that does not conflict with the stipulations of the financing laws and their implementing regulations. Such powers include to represent the Company and sign in its name and on its behalf before the notaries public, all official agencies, government departments, ministries, public and private bodies and institutions, individuals, companies, banks and others, and to report on all company affairs. Within the limits stipulated in its articles of association, entering the company as a partner in companies, signing its articles of association and amendment decisions of all kinds, whether by increasing or decreasing the capital, modifying the purposes, exiting one of the partners, amending any article in the articles of association and liquidating the companies in which the company participates, before the Ministry of Commerce, Ministry of Investment, notary public and other relevant bodies, opening branches, appointing and dismissing their managers, obtaining and writing off commercial registrations, obtaining licenses, signing all agreements, contracts, tenders, decisions, minutes, records, bank accounts, etc. He also has the power to defend the company, litigation, plead, defend, request and accept arbitration, appoint arbitrators, reject them, experts and dismiss them, represent the company before them and in any lawsuits filed by or against the company, and file and hear cases before all Sharia courts, enforcement courts, the Board of Grievances, all judicial and administrative bodies of various degrees and titles, and banking and finance dispute settlement committees, labor offices and bodies for settling labor disputes of various degrees, and proving every right of the company. He also has the right to contract with lawyers and determine their fees according to as he deems fit for the interest of the company and submit and accept memoranda and litigation to the company. and decisions and object to them, asking for an oath, reconciliation, clemency, acceptance of judgments and decisions, objection to them, appealing them, cassation and requesting their implementation, handing over and receiving all papers, transactions, judgments, decisions, all documents and registration certificates in the commercial registry, and signing all that is necessary in the name and on behalf of the company. He also has the right to buy and sell shares and stakes in the companies in which the company participates, receive its profits and sign on that and accept the shares assigned to the company or partners and assign the shares belonging to the company in the companies in which it participates. He also has the right to sell, buy, transfer ownership, accept, receive the price, deliver the appraiser, receive the value, mortgage and redeem it, obtain checks on all the company's properties, prove what must be proven and sign on behalf of the company in this regard and request amendment of title deeds with their limits, areas, deletion and addition to them, as well as the right to invest the funds of the company. He also has the right to invest the company's funds and operate them in the local and international financial markets, as well as the right to sign all of the above and to delegate authority to others in all or some of the aforementioned powers and has the right to grant others the right to delegate others.

The Board of Directors appoints a secretary to be chosen by it from among its members or from others, who is responsible for recording the minutes of the Board of Directors' meetings, writing down the decisions issued by these meetings and maintaining them, in addition to exercising other powers entrusted to him by the Board of Directors. The Board determines his remunerations. The term of the chairman, deputy-chairman, managing director, and the board member secretary shall not exceed the term of each of their membership in the Board, and they may be re-elected. The board may at any time dismiss them or any of them without prejudice to the right of those dismissed for compensation if the dismissal occurred for an unlawful reason or at the wrong time. The remuneration obtained by the chairman or the managing director, if any, shall be as determined by the board of directors, provided that the remuneration amount for each of them does not exceed (500,000) riyals annually.

### 12-15-22 Board Meetings

The Board of Directors shall meet at least (4) four times a year at the invitation of its Chairman. The invitation shall be in writing and may be sent by registered mail, fax or e-mail, (7) seven days prior to the date set for the meeting. The Chairman of the Board shall invite the Board to a meeting whenever two members asked him.

### 12-15-23 Quorum of Board Meetings

The meeting of the Board shall not be valid unless attended by (7) seven members at least in person or by proxy, provided that the number of those present shall not be less than five members.

a. A member of the Board of Directors may not represent more than one member in attending the same meeting.
b. The delegation must be established in writing regarding a specific meeting.
c. A representative may not vote on decisions that the Law prohibits the representative from voting on.

Subject to the stipulations stated otherwise in the Articles of Association, the decisions of the Board of Directors are issued by a majority of (7) seven members at least from those present or represented therein and who are entitled to vote on the subject at hand. In the event of tie votes, the side with which the chairperson voted does not prevail. A member of the Board of Directors may participate in any meeting by phone, by videoconference or by any similar electronic means through which all members of the Board of Directors can communicate through it at the same time. Such participation is considered attendance at the meeting, and the Board may issue decisions by circulation, unless one of the members requests in writing to hold a meeting for deliberation, in which case these decisions are presented to the Board of Directors in the first following meeting. Every member of the Board of Directors who has a direct or indirect personal interest in any matter or proposal presented to the board or the sub-committees must inform the board or the committee of the nature of his interest in the matter presented, and he must - without excluding him from the number necessary for the validity of the meeting - refrain from: participation in deliberations and voting in the board or committee in relation to the matter or proposal.

### 12-15-24 Board Deliberations

The deliberations and decisions of the Board of Directors shall be recorded in minutes signed by the Chairman, the members of the Board that are present and the Board Secretary. These minutes shall be recorded in a special register signed by the Chairman and the Secretary.

### 12-15-25 Sukuk and Bonds

For loans it held, the Company may issue Shariah-compliant sukuk and bonds of equal value, negotiable and indivisible, in accordance with the provisions of the Companies Law, and after obtaining approval of the Saudi Central Bank.

### 12-15-26 Shareholders' Assemblies

Each shareholder has the right to attend the general assemblies of shareholders, and for this he may delegate another person other than members of the Board of Directors or the Company's employees to attend the general assembly on his behalf. The Ministry of Commerce and the Saudi Central Bank may delegate one or more delegates to attend general assemblies as observers.

a. The Constituent Assembly

The Founding Shareholders shall call all the subscribers to hold a constituent assembly within forty-five days from the date of the ministry's decision to authorize the establishment of the company. For the meeting to be valid, the attendance of a number of subscribers representing at least half of the capital is required of being invited. In all cases, the second meeting shall be valid regardless of the number of subscribers represented therein.

b. Functions of the Constitutional Assembly

The Constituent Assembly is concerned with the matters mentioned in Article (63) of the Companies Law, in a manner that does not conflict with the financing laws, their implementing regulations, and the relevant regulations and instructions.

c. Functions of the Extraordinary General Assembly

The Extraordinary General Assembly is concerned with amending the company's articles of association, except for matters that are prohibited from amending them by law. In all cases, approval of the Saudi Central Bank must be obtained in writing before making any amendment to the company's articles of association. The Extraordinary General Assembly may issue decisions in matters within the competence of the Ordinary General Assembly, under the same terms and conditions prescribed for the Ordinary General Assembly.

d. Functions of the Ordinary General Assembly

With the exception of the matters of the Extraordinary General Assembly, the Ordinary General Assembly is concerned with all matters relating to the company and is held at least once a year during the six months following the end of the company's fiscal year. Other ordinary general assemblies may be called whenever the need arises.

e. Invitation to Assemblies

General or special assemblies of shareholders are convened at the invitation of the Board of Directors, and the Board of Directors must invite the Ordinary General Assembly to convene if requested by the auditor, the audit committee, or a number of shareholders representing at least five percent (5%) of the capital. The auditor may invite the assembly to convene if the board did not invite the assembly within thirty (30) days from the date of the auditor's request.

The invitation to convene the general assembly shall be published in a daily newspaper distributed at the company's head office at least twenty-one days before the date fixed for the meeting. Nevertheless, it may be sufficient to send the invitation on the aforementioned date to all shareholders by registered letters. A copy of the invitation and the agenda shall be sent to the Ministry of Commerce, the Saudi Central Bank and the Capital Market Authority, within the period specified for publication.

f. Attendance Record of Assemblies

A list shall be drawn up one hour before the assembly's meeting and until the time specified for the assembly, with the names of the shareholders present and represented, and their places of residence, indicating the number of shares they hold in person or by proxy, and the number of votes allocated to them. Everyone with an interest shall have access to this list.

g. Quorum of the ordinary general assembly meeting

1. The meeting of the Ordinary General Assembly shall not be valid unless attended by shareholders representing at least a quarter of the capital.
2. If this quorum is not available to hold the Ordinary General Assembly meeting in accordance with paragraph (1), a second meeting shall be called to be held within the thirty days following the previous meeting, and this invitation shall be published in the manner provided for in the company's articles of association. However, the second meeting may be held an hour after the end of the period specified for holding the first meeting, provided that the invitation to hold the first meeting includes an announcement about the possibility of holding this meeting.

In all cases, the second meeting shall be considered valid regardless of the number of shares represented therein.

h. Quorum of the Extraordinary General Assembly meeting

1. The Extraordinary General Assembly meeting shall not be valid unless attended by shareholders representing half of the capital.
2. If the quorum necessary to hold the Extraordinary General Assembly meeting in accordance with Paragraph (1) of this Article is not available, an invitation is sent to a second meeting to be held in the same conditions stipulated in the company's articles of association. However, the second meeting may be held an hour after the end of the specified period for the first meeting to be held, provided that the invitation to hold the first meeting includes an announcement of the possibility of holding this meeting. In all cases, the second meeting shall be valid if attended by a number of shareholders representing at least a quarter of the capital.
3. If the necessary quorum is not present for the second meeting, an invitation is sent to a third meeting to be held in the same conditions stipulated in the company's articles of association, and the third meeting shall be valid regardless of the number of shares represented therein, after approval of the competent authority.

i. Voting in the Assemblies

Each subscriber has a vote for every share he represents in the constituent assembly, and every shareholder has a vote for each share in the general assemblies, and the cumulative voting must be used to elect the Board of Directors.

j. Decisions of the Assemblies

Decisions are issued in the Constituent Assembly by an absolute majority of the shares represented therein, and decisions in the Ordinary General Assembly are issued by an absolute majority of the shares represented in the meeting. The decisions of the Extraordinary General Assembly are also issued by a two-thirds majority of the shares represented in the meeting, unless the decision is related to an increase or decrease in the capital or a prolongation of the company's term, or dissolving the company before the expiry of its period specified in its articles of association, or merging it with another company, it shall not be valid unless it is issued by a majority of three quarters of the shares represented at the meeting, and the decision shall not be effective until after obtaining approval of the Central Bank of Saudi Arabia.

k. Deliberations of the Assemblies

Each shareholder has the right to discuss the topics listed on the agenda of the assembly and to direct questions about them to the members of the Board of Directors and the auditor. The Board of Directors or the auditor answers the shareholders' questions to the extent that does not jeopardize the company's interest. If the shareholder finds that the answer to his question is not convincing, he will resort to the assembly, and its decision in this regard will be enforceable.

l. Presiding over assemblies and preparing minutes

The meetings of the general assemblies of shareholders are chaired by the chairman of the Board of Directors or his deputy in his absence, or whoever is delegated by the Board of Directors from among its members in the absence of the chairman and his deputy. Minutes of the meeting of the assembly are drawn up, including the number of shareholders present or represented, number of shares they hold in person or by proxy, number of votes assigned to them, decisions taken, number of votes that approved or disagreed with them, and an adequate summary of the discussion that took place at the meeting. The minutes are recorded regularly after each meeting in a special register signed by the assembly's president, secretary and canvasser.

m. Audit Committee

By a decision of the General Assembly, an audit committee shall be formed whose members shall not be less than (3) three and not more than (5) five members who are not members of the Executive Directors, whether from shareholders or others, provided that most of its members shall be independent, after fulfilling the appropriateness requirements determined by the Central Bank of Saudi Arabia and obtaining a letter from it stating that it does not object to that, and the Company's general Assembly issuing a decision based on the board's proposal including the committee's tasks, how it works, the rules for selecting its members, their remuneration and the term of their membership, a is issued by the company's general assembly. For the audit committee meeting to be valid, the attendance of the majority of its members is required, and its decisions are issued by a majority vote of those present. When the votes are equal, the side with which the chairman of the committee voted shall prevail

n. Auditor

Without prejudice to the provisions of Article (74) seventy-fourth of the Implementing Regulations of the Finance Companies Control Law, the company must have one or more auditors from among the auditors licensed to work in the Kingdom of Saudi Arabia, appointed annually by the Ordinary General Assembly and determining their remuneration and duration of work, and they may re-appointment. The assembly may also at any time change the auditor without prejudice to its right for compensation if the change occurred at an inappropriate time or for an illegal cause.

o. Fiscal year

The company's fiscal year begins on the first of January and ends at the end of December of each Gregorian year, provided that the first fiscal year begins from the date of the ministerial resolution announcing the establishment of the company and ends on December 31 of the year 2008G.

p. Financial documents

Without prejudice to the provisions of the Companies Law and the Finance Companies Control Law and its Implementing Regulations, in particular Article Twenty-six (26) of the Implementing Regulations of the Finance Companies Control Law, the Board of Directors must, at the end of each fiscal year, prepare the company's financial statements and a report on its activity and financial position for the past fiscal year. This report includes the proposed method of dividend distribution. The Board shall place these documents at the disposal of the auditor at least forty-five (45) days prior to the date set for convening the General Assembly. The Chairman, Chief Executive Officer and Financial Manager must sign the aforementioned documents and copies of them shall be deposited at the company's head office at the shareholders' disposal before at least ten (10) days before the scheduled date of the meeting. The chairman of the Board of Directors shall provide the shareholders with the company's financial statements, the board's report, and the auditor's report, unless they are published in a daily newspaper distributed at the company's head office. He shall also send a copy of these documents to the Ministry of Commerce the least fifteen (15) days before the general assembly is convened.

q. Dividends

Without prejudice to the provisions of Article (26) twenty-six of the Implementing Regulations of the Finance Companies Control Law, the company's annual net profits shall be distributed after deducting all general expenses and other costs, including Zakat and income tax, as follows:

1. Ten percent (10%) of the profits shall be set aside to form the statutory reserve of the company, and the Ordinary General Assembly may decide to discontinue this set-up when the said reserve reaches thirty percent (30%) of the paid-up capital.
2. The Ordinary General Assembly, based on the proposal of the Board of Directors, may set aside an equal percentage of the net profits to form a consensual reserve and allocate it for a specific purpose or purposes decided by the General Assembly.
3. The Ordinary General Assembly may decide to create other reserves, to the extent that achieves the interest of the company or ensures the distribution of fixed profits as much as possible to the shareholders.
4. After that, the remainder, if any, shall be distributed to the shareholders a percentage representing (5%) five percent of the company's paid-up capital.
5. Subject to the provisions stipulated in the company's articles of association, after the above, a percentage not exceeding (10%) ten percent of the remainder shall be allocated to the Board of Directors' remuneration, provided that the entitlement to this remuneration is proportional to the number of sessions attended by the member.
6. The remainder is then distributed to the shareholders as a share in the profits or transferred to the retained earnings account.

r. Earnings entitlement

The shareholder shall be entitled to his share of the profits in accordance with the resolution of the General Assembly issued in this regard. The resolution shall indicate the due date and the date of distribution. The eligibility of profits shall be for the owners of shares registered in the shareholders' records at the end of the day specified for entitlement.

s. Dividend distribution of preferred shares

1. If no dividends are distributed for any fiscal year, then no dividends may be distributed for the following years until after paying the percentage specified in accordance with the provision of Article (114) one hundred and fourteen of the Companies Law for Preferred Shareholders for that year.
2. If the company fails to pay the percentage specified in accordance with the provisions of Article (114) one hundred and fourteen of the profits for a period of three consecutive years, the special assembly of the holders of these shares, convened in accordance with the provisions of Article (89) eighty-ninth of the Companies Law, may decide either that they attend the company's general assembly meetings and participate in the voting, or that they appoint representatives to the Board of Directors in proportion to the value of their shares in the capital, until the company is able to pay all the priority dividends allocated to the owners of these shares for the previous years.

t. The Company's losses

Without prejudice to the provisions of Article Seventy (70) of the Implementing Regulations of the Finance Companies Control Law, if the company's losses amount to half of its paid-up capital, at any time during the fiscal year, any officer of the company or the auditor must immediately inform the Chairman of the Board of Directors as soon as he becomes aware of this, and the Chairman of the Board of Directors shall immediately inform the members of the Board of this, and the Board of Directors - within fifteen days of its knowledge of this - shall invite the Extraordinary General Assembly to meet within forty-five days from the date of its knowledge of the losses, to decide whether to increase or decrease the company's capital in accordance with the provisions of the Companies Law to the extent that the percentage of losses drops below half of the paid-up capital, or the company is dissolved before the term specified in its articles of association.

The company is considered dissolved by the force of the Companies Law if the general assembly did not meet within the period specified in the above paragraph, or if it met and was unable to issue a decision on the matter, or if it decided to increase the capital in accordance with the conditions established above and the subscription for all the capital increase was not completed within ninety days from the date of issuance of the Assembly's decision to increase the capital.

u. Disputes

Every shareholder has the right to file a liability lawsuit for the company against the members of the Board of Directors if the mistake committed by them would cause his own harm. The shareholder may not file the aforementioned lawsuit unless the company's right to file it still exists. The shareholder must inform the company of his intention to file the lawsuit.

v. Dissolution and liquidation of the Company

Without prejudice to the provisions of Article Twenty (20) of the Implementing Regulations of the Finance Companies Control Law, the company, upon its expiry, enters the phase of liquidation and retains the legal personality to the extent necessary for liquidation. The voluntary liquidation decision shall be issued by the extraordinary general assembly. The liquidation decision shall include the appointment of the liquidator, determining its powers and fees as well as the restrictions imposed on its powers, and the time period required for liquidation. The term of voluntary liquidation shall not exceed five years and may not be extended for more than that except by a judicial order, The authority of the Board of Directors shall end with the company's dissolution. nevertheless, they remain in charge of managing the company and are considered to others as liquidators until the liquidator is appointed. Shareholders' assemblies remain in place during the liquidation period, and their role is limited to exercising their competencies that do not conflict with the competencies of the liquidator.

### 12-15-27 Shareholders' Rights

According to Article (110) of the Companies Law, the Company's ordinary shares entails equal rights and obligations and establish for the shareholder all rights related to the share, in particular the right to obtain a share of the net profits to be distributed, the right to obtain a share of the Company's assets upon Liquidation, the right to attend shareholder assemblies, participate in its deliberations and vote on its decisions, the right to dispose of shares, the right to request access to the company's books and documents, monitor the work of the Board of Directors, file a liability claim against members of the Board, and appeal the nullity of the shareholders' assemblies' decision, under the conditions and restrictions provide for in the Law or in the Company's Articles of Association.

Also, according to Article Ninety-six (96) of the Companies Law, every shareholder has the right to discuss the topics listed on the assembly's agenda and to direct questions about them to the members of the Board of Directors and the auditor. If the shareholder deems that the answer to his question is not convincing, he shall appeal to the assembly, and its decision in this regard shall be enforceable.

### 12-15-28 Amending Shareholders' Rights

The following shareholders' rights are derived from the Companies Law, which should not be amended or denied to the shareholder:

1. Obtaining a share of the profits to be distributed, whether the distribution is in cash or through the issuance of free shares for non-workers of the company and its subsidiaries.
2. Obtaining a share of the Company's assets upon liquidation.
3. Attending public or private shareholders' assemblies, participating in their deliberations, and voting on their decisions.
4. Disposing of the shares in accordance with the provisions of the Law.
5. Requesting access to the company's books and documents, monitoring the work of the Board of Directors, filing a liability claim against members of the Board of Directors, and appealing the invalidity of the decisions of the general and private shareholders' assemblies.
6. Priority for subscribing to new shares issued in exchange for cash shares, unless the Extraordinary General Assembly decides otherwise in accordance with the company's articles of association.
7. Increasing financial burdens on shareholders without their consent.

### 12-15-29 Description of Shares

a. The Company's capital

The Company's capital is (SAR 1,000,000,000) one thousand million Saudi riyals, divided into (100,000,000) one hundred million nominal shares, of equal value of (SAR 10) ten Saudi riyals, all of which are ordinary cash shares

b. Ordinary Shares

Shares are nominal and may not be issued for less than their nominal value, but may be issued at a higher value. In this case, the difference in value is added in a separate item within shareholders' equity, and it may not be distributed as dividends to shareholders. The share is indivisible in the face of the Company. If the share is owned by multiple persons, they must choose one of them to represent them in the use of the rights related to the share, and these persons are jointly responsible for the obligations arising from the ownership of the share.

c. Preferred Shares

The Extraordinary General Assembly of the Company may, according to the principles set by the competent authority, issue preferred shares or decide to purchase them, convert ordinary shares into preferred shares, or convert preferred shares into ordinary ones. Such preferred shares entitle their holders to obtain a greater percentage of the net profits than the ordinary shareholders of the Company's after setting aside the statutory reserve.

d. Buy back Shares

After approval of the Central Bank and after approval of the Extraordinary General Assembly, the Company may buy or mortgage its ordinary shares in accordance with the regulations set by the competent authority, and the shares purchased by the Company shall not have votes in the shareholders' assemblies. The Company may also purchase its shares to allocate them to the employee shares program in accordance with the regulations issued by the competent authority. In addition, the Company may, after approval of the Board of Directors and the Extraordinary General Assembly, sell treasury shares in one or several stages in accordance with the controls set by the competent authority.

e. Share trading

The shares subscribed by the Founding Shareholders may not be traded until after the financial statements have been published for two fiscal years, each of which is not less than twelve (12) months from the date of the Company's incorporation. The instruments of these shares shall be marked with an indication of their type, date of incorporation of the Company, and the period during which trading is prohibited. However, during the lock-up period, the ownership of shares may be transferred in accordance with the provisions of the sale of rights from one of the founders to another founder or from the heirs of one of the founders in the event of his death to third parties or in the event of enforcement on the funds of the insolvent or bankrupt founder, provided that the priority of owning such shares is given to the other founders. The provisions of this Article shall apply to what the founders subscribe to in the event of an increase in the capital before the expiry of the lock-up period. In all cases, the founding shares may not be disposed of except after obtaining a no-objection from the Saudi Central Bank in writing in accordance with the provisions of Article 8 of the Finance Companies Control Law.

f. Shareholders' Righs

According to Article one hundred and ten (110) of the Companies Law, ordinary company shares ential equal rights and obligations and give the shareholder all rights related to the share, in particular the right to obtain a share of the net profits to be distributed, the right to obtain a share of the company's assets upon liquidation, the right to attend shareholder assemblies, participate in its deliberations and vote on its decisions, the right to dispose of shares, the right to request access to the company's books and documents, monitor the work of the Board of Directors, file a liability claim against members of the Board, and appeal the nullity of the shareholders' assemblies' decision, sdxubject to the conditions and restrictions stipulated in the Law or in the Company's Articles of Association.

Also, according to Article Ninety-six (96) of the Companies Law, every shareholder has the right to discuss the topics listed on the assembly's agenda and to direct questions about them to the members of the Board of Directors and the auditor. If the shareholder deems that the answer to his question is not convincing, he shall appeal to the assembly, and its decision in this regard shall be enforceable.

g. General Assemblies

The Extraordinary General Assembly is concerned with amending the company's articles of association, except for matters that are prohibited from amending them by law. In all cases, approval of the Saudi Central Bank must be obtained in writing before making any amendment to the company's articles of association. The Extraordinary General Assembly may issue decisions in matters within the competence of the Ordinary General Assembly, under the same terms and conditions prescribed for the Ordinary General Assembly.

With the exception of the matters of the Extraordinary General Assembly, the Ordinary General Assembly is concerned with all matters relating to the company and is held at least once a year during the six months following the end of the company's fiscal year. Other ordinary general assemblies may be called whenever the need arises.

h. Holding Shareholders' assemblies

General or special assemblies of shareholders are convened at the invitation of the Board of Directors, and the Board of Directors must invite the Ordinary General Assembly to convene if requested by the auditor, the audit committee, or a number of shareholders representing at least five percent (5%) of the capital. The auditor may invite the assembly to convene if the board did not invite the assembly within thirty (30) days from the date of the auditor's request.

The invitation to convene the general assembly shall be published in a daily newspaper distributed at the company's head office at least twenty-one days before the date fixed for the meeting. Nevertheless, it may be sufficient to send the invitation on the aforementioned date to all shareholders by registered letters. A copy of the invitation and the agenda shall be sent to the Ministry of Commerce, the Saudi Central Bank and the Capital Market Authority, within the period specified for publication.

i. Quorum of the Ordinary General Assembly

The meeting of the Ordinary General Assembly shall not be valid unless attended by shareholders representing at least a quarter of the capital.

If this quorum is not available to hold the Ordinary General Assembly meeting in accordance with paragraph (1), a second meeting shall be called to be held within the thirty days following the previous meeting, and this invitation shall be published in the manner stipulated in the company's articles of association. However, the second meeting may be held after an hour from the expiry of the period specified for holding the first meeting, provided that the invitation to hold the first meeting includes an announcement about the possibility of holding this meeting.

In all cases, the second meeting shall be considered valid regardless of the number of shares represented therein.

j. Quorum for the Extraordinary General Assembly

The Extraordinary General Assembly meeting is not valid unless attended by shareholders representing half of the capital. If the necessary quorum is not available to hold the Extraordinary General Assembly meeting, an invitation is sent to a second meeting to be held in the same conditions stipulated in the company's articles of association. However, the second meeting may be held an hour after the end of the period specified for convening the first meeting, provided that the invitation to hold the meeting includes an indication announcing the possibility of holding this meeting. In all cases, the second meeting is valid if attended by a number of shareholders representing at least a quarter of the capital. If the necessary quorum is not present for the second meeting, an invitation is sent to a third meeting to be held in the same conditions stipulated in the company's articles of association, and the third meeting will be valid regardless of the number of shares represented therein, after approval of the competent authority.

k. Voting rights

Each subscriber has a vote for every share he represents in the constituent assembly, and every shareholder has a vote for each share in the general assemblies. The cumulative vote must be used to elect the Board of Directors.

l. Duration of the Company

The term of the Company is ninety-nine (99) Gregorian years starting from the date of its registration in the Commercial Register, and the term of the Company may always be extended by a decision issued by the Extraordinary General Assembly at least two years before the expiry of its term.

m. Dissolution and liquidation of the Company

Without prejudice to the provisions of Article Twenty (20) of the Implementing Regulations of the Finance Companies Control Law, the company, upon its expiry, enters the phase of liquidation and retains the legal personality to the extent necessary for liquidation. The voluntary liquidation decision shall be issued by the extraordinary general assembly. The liquidation decision shall include the appointment of the liquidator, determining its powers and fees as well as the restrictions imposed on its powers, and the time period required for liquidation. The term of voluntary liquidation shall not exceed five years and may not be extended for more than that except by a judicial order, The authority of the Board of Directors shall end with the company's dissolution. nevertheless, they remain in charge of managing the company and are considered to others as liquidators until the liquidator is appointed. Shareholders' assemblies remain in place during the liquidation period, and their role is limited to exercising their competencies that do not conflict with the competencies of the liquidator.

n. Amendment of Shareholders' Rights

Shareholders' rights related to obtaining a share of the profits to be distributed, obtaining a share of the Company's assets upon liquidation, attending public or private shareholders' assemblies, participating in their deliberations, and voting on their decisions, disposing of shares, viewing the books of the company and its documents, monitoring the work of the Board of Directors, filing a liability lawsuit against members of the Board of Directors, and appealing the invalidity of the decisions of the general and private shareholders' assemblies (subject ot the conditions and restrictions stipulated by the Companies Law and the Articles of Association), are rights derived from the Companies Law, which must not be amended or deprived of the shareholder.

## 12-16 Declarations regarding to the Legal Information

The members of the Board of Directors acknowledge the following:

1. The offering does not violate the relevant laws and regulations in the Kingdom of Saudi Arabia.
2. The offering shall not prejudice any of the contracts or agreements to which the company is a party.
3. All material legal information related to the issuer has been disclosed in the prospectus.
4. Other than what is stated in Section No. (12-14) ("**Claims and Litigations**"), the Company is not subject to any lawsuits or legal procedures that, alone or in the aggregate, may materially affect the Company's business or financial position.
5. The members of the company's Board of Directors are not subject to any lawsuits or legal procedures that, alone or in the aggregate, may materially affect the company's business or its financial position.

13

# Underwriting

# 13- Underwriting

The Company, the Selling Shareholders, and the Underwriters (Riyad Capital Company) entered into an underwriting agreement on 19/08/1443H (corresponding to 22/03/2022G) (the "**Underwriting Agreement**") pursuant to which the Underwriter have agreed, subject to certain conditions, to fully underwrite the Offering of thirty million (30,000,000) Offer Shares subject to certain terms and conditions contained in the Underwriting Agreement. Following is the the name and address of the Underwriter.

## 13-1 Underwriter

**Riyadh Capital Company**
2414 - Al Shuhada District, Unit No. 69
Riyadh 13241-7279
Kingdom of Saudi Arabia
Tel: +966 9200 122299
Fax: +966 (11) 486 5908
Website: www.riyadcapital.com
E-Email: ask@riyadcapital.com

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riyad capital

## 13-2 Summary of the Underwriting Agreement

According to the terms and conditions of the Underwriting Agreement, it:

- The Selling Shareholders undertake to the Underwriters that, on the first business day after the allocation of the Offer Shares following the end of the Offering Period, they shall:
- Sell and allocate the Offer Shares to Participating Parties or Individual Investors whose applications for Offer Shares have been accepted by the Receiving Agents.
- Sell and allocate to the Underwriters (or as they may direct) Offer Shares that are not purchased by Individual Investors or Participating Parties pursuant to the Offering.
- The Underwriters undertake to the Company and the Selling Shareholders that they will purchase any Offer Shares that are not subscribed for by Individual Investors or Participating Parties, as stated below:

Table 13-1: Underwritten Shares

| Underwriters | Number of Offer Shares Underwritten | Percentage of Offer Shares Underwritten |
|---|---|---|
| Riyadh Capital Company | 30,000,000 | 100% |

Source: the group

The Company and Selling Shareholders undertake to satisfy all provisions of the Underwriting Agreement

## 13-3 Underwriting Costs

The Selling Shareholders will pay to the Underwriters, on a pro-rata basis to the number of Offer Shares sold, an underwriting fee based on the total value of the Offering and pay the Underwriters' costs and expenses in connection with the Offering on behalf of the Company.

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# Expenses

# 14- Expenses

The Selling Shareholders will bear all costs associated with the Offering, which are estimated at around seventeen million two hundred thousand (17,200,000) Saudi riyals. These costs will be deducted from the Offering Proceeds and include the fees of the Financial Advisor, Underwriter, Lead Manager, Bookrunner, Legal Advisor, Auditors, Receiving Agents and the Market and Sector study Consultant, in addition to expenses of the Receiving Agents, marketing, printing and distribution expenses and other relevant expenses. The Offering Expenses will be deducted from the Offering Proceeds and the Company will not bear any further Offering-related expenses.

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# The Company's Post-Listing Undertakings

# 15- The Company's Post-Listing Undertakings

Post-listing, the Company undertakes to:

- Fill out Form (8) related to compliance with the Corporate Governance Regulations, and if the Company does not comply with any of the requirements of the Corporate Governance Regulations, then it must explain the reasons for that.
- Notifying the Authority of the date of the first General Assembly Meeting after the listing, so that its representative can attend
- Submit to the General Assembly for approval, all works and contracts in which any Director has a direct or indirect interest (in accordance with the Companies Law and the Corporate Governance Regulations) provided that the authorization shall be annually renewed; and the Director with such interest shall be prohibited from participating in voting on decisions issued in this regard by the Board of Directors and the General Assembly. For more details regarding Agreements with Related Parties, please see Section (12-10) ("**Transactions and Contracts Agreements with Related Parties**").
- Disclose any material developments related to the company.
- Comply with all the mandatory articles of the Rules on the Offer of Securities and Continuing Obligations, Listing Rules and the Corporate Governance Regulations immediately after the listing.

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# Exemptions

# 16- Exemptions

The Company has not applied to be exempted from any requlatory requirements.

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# Information related to the Shares and Terms and Conditions of the Offering

# 17- Information related to the Shares and Terms and Conditions of the Offering

The Company submitted a request to the Authority to register and Offer Shares in accordance with the requirements of the Rules on the Offer of Securities and Continuing Obligations issued by the Board of the Capital Market Authority pursuant to Resolution No. (3-123-2017) dated 9/4/1439H (corresponding to 27/12/2017G) and amended by Resolution No. (1-7-2021) dated (01/06/1442H) corresponding to 14/01/2021G, and a request to list shares on Tadawul in accordance with the Listing Rules issued by the decision of the Authority's Board on 9/4/1439H (corresponding to 27/12/2017G) and amended by Resolution No. (1-22-2021) on (12/07/1442H) corresponding to (24/02/2021G).

All subscribers must read the terms and conditions of the subscription very carefully before completing the Subscription Application Form, as signing the Subscription Application Form and delivering it to the Receiving Agent is considered an acknowledgment of acceptance and approval of the mentioned subscription terms and instructions.

## 17-1 Subscription to Offer Shares

The subscription consists of thirty million (30,000,000) fully paid ordinary shares with a nominal value of (10) ten Saudi riyals per share, representing thirty percent (30%) of the Company's capital, which is offered at a price of twenty (20) Saudi Riyals per share, with a total value of six hundred million (600,000,000) Saudi Riyals, and the subscription is limited to the following two tranches:

Tranche (A): Participating Categories: This segment includes a group of institutions and companies, including investment funds, companies, qualified foreign investors and GCC investors with legal personality. The number of shares that will be allocated to these categories is thirty million (30,000,000) ordinary shares representing (100%) of the total shares The offering and the final allotment after the end of the individual subscription period, bearing in mind that in the event of a sufficient request by individual subscribers, the Bookrunner has the right to reduce the number of shares allocated to the participating parties to twenty-seven million (27,000,000) shares representing ninety percent (90%) of the total Offer Shares.

Tranche B: Individual Investors: This tranche includes Saudi natural persons, including any divorced or widowed Saudi woman with minor children from a marriage to a non-Saudi, who is entitled to subscribe to the Offer Shares in their names on her own behalf, on the condition that she provides proof that that she is divorced or widowed and the mother of her minor children. It also includes GCC investors who are natural persons and resident foreign investors holding valid residency permits and having bank accounts. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature is demonstrated to have occurred, then the law shall be enforced against the applicant. A maximum of (3,000,000) three million Offer Shares, representing 10% of the total Offer Shares, shall be allocated for Individual Investors. If Individual Investors do not fully subscribe for the full number of allocated shares, the Bookrunner is entitled to reduce the number of Offer Shares allocated to Individual Investors in proportion to the number of Offer Shares subscribed for thereby.

## 17-2 Book-Building for Participating Parties

The Issuer's Financial Advisor will determine the price range for the purposes of book-building and make it available to all Participating Parties.

Participating Parties must submit requests to purchase the Offer Shares during the book-building period by filling out and submitting the Application Form. Participating Parties may change or cancel their Application Forms at any time during the book-building process, provided that such change is made by submitting an amended or additional Application Form (as applicable) prior to the determination of the offer price, which shall take place before the start of the Offering Period. The number of Offer Shares to be subscribed to by each Participating Party shall neither be less than one hundred (100,000) shares nor more than four million, nine hundred ninety-nine thousand, nine hundred ninety-nine (4,999,999) shares. With regard to public investment funds, each participating public fund must not exceed its subscription limit, which is determined in accordance with the Book Building Instructions. The requested number of shares required must be allocable. Bookrunner will notify the participating parties regarding the Offering Price and the number of the Offer Shares initially allocated to them. The subscription process for the participating entities must start during the Offering period, which also includes individual subscribers, in accordance with the subscription terms and instructions detailed in the Subscription Application Forms.

Once the book building process for Participating Parties is completed, the Bookrunner shall announce the subscription coverage percentage by Participating Parties.

The Bookrunner and the Company will have the power to determine the offer price according to the forces of supply and demand, provided that it does not exceed the price specified in the Underwriting Agreement, provided that the subscription price is in accordance with the price change units applied by Tadawul.

## 17-3 Subscription by Individual Investors

Each Individual Investor shall subscribe for a minimum of ten (10) Offer Shares and a maximum of (250,000) two hundred and fifty thousand Offer Shares. Changes to or withdrawal of the subscription application shall not be permitted once the Subscription Application Form has been submitted.
Subscription Application Forms will be available during the Offering Period on the website of the Receiving Agents. Subscription Application Forms shall be completed in accordance with the instructions mentioned below. Investors who have recently participated in recent initial public offerings can also subscribe through the Internet, banking telephone or ATMs of the Receiving Agents that offer any or all such services to its customers, provided that:

a. The Individual Investor has a bank account with a Receiving Agent which offers such services.
b. There have been no changes to the Individual Investor's personal or private information since he/she last participated in an Offering.
c. The individual subscriber of non-Saudis and GCC nationals shall have an account with one of the authorized persons who provide such a service.

A signed Retail Subscription Form must be submitted to any branches of the Receiving Agents representing a legally binding agreement between the Selling Shareholders and the relevant Individual Investor submitting it.

Individual Investors may obtain a copy of this Prospectus and the Subscription Application Form from the branches of the following Receiving Agents (the Prospectus is also available on the websites of the CMA, the Financial Advisor and the Company):

| Receiving Agents |
|---|
| Riyad Bank<br>Shuhada District<br>P.O. Box 22622<br>Riyadh 11614<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 4013030<br>Fax: +966 (11) 4865909<br>Website: www.riyadbank.com<br>Email: customercare@riyadbank.com |
| Al Rajhi Bank<br>Olaya Street<br>P.O. Box 28<br>Riyadh 11411<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 6098888<br>Fax: +966 (11) 6098888<br>Website: www.alrajhibank.com<br>Email: contactcenter1@alrajhibank.com |
| Arab National Bank<br>King Faisal Street<br>P.O Box 56921<br>Riyadh 11564<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 4029000<br>Fax: +966 (11) 4027747<br>Website: www.anb.com.sa<br>Email: info@anb.com.sa |

## 17-4 Offering Period and Conditions for individual subscribers

Receiving Agents that provide this service will start receiving Subscription Application Forms in their branches throughout the Kingdom of Saudi Arabia starting from 24/08/1443H (corresponding to 27/03/2022G) until 26/08/1443H (corresponding to 29/03/2022G). Upon signing and delivering the Subscription Application Form, the Receiving Agent shall stamp the form and submit a copy of it to the applicant. In case the information provided in the application form is incomplete or incorrect, or if it is not stamped by the Receiving Agent, the Subscription Application Form is considered void. The subscriber must specify the number of shares that he is applying for in the Subscription Application Form, so that the total subscription amount is the product of multiplying the requested number of shares by the offer price of twenty (20) Saudi Riyals per share.

Subscription to less than (10) shares or fractions of shares will not be accepted, and any subscription to shares above that, must be in multiples of this number. The maximum limit for each individual subscriber is two hundred and fifty thousand (250,000) shares of the Offer Shares.

Subscription Application Forms should be submitted during the Offering Period and accompanied, where applicable, by the following documents. The Receiving Agents shall verify all copies against the originals and will return the originals to the Investor:

a. The original and copy of the civil identification card (for Individual Investors).
b. The original and copy of the family civil identification card (when subscribing on behalf of family members).
c. The original and copy of the power of attorney (when subscribing on behalf of family members).
d. The original and copy of the certificate of guardianship (when subscribing on behalf of orphans).

e. The original and copy of the divorce certificate (when subscribing on behalf of the children of a divorced Saudi woman).
f. The original and copy of the birth certificate (when subscribing on behalf of the children of a widowed Saudi woman).
g. The original and copy of the birth certificate (when subscribing on behalf of the children of a divorced or widowed Saudi woman).

Power of attorney is limited to family members (fathers and children only). In the event that a Subscription Application Form is submitted on behalf of the applicant (parents and children only), the name of the person who signed on behalf of the subscriber must be mentioned. The power of attorney must be issued by the notary public for individual subscribers residing in the Kingdom of Saudi Arabia. As for individual subscribers residing outside the Kingdom of Saudi Arabia, the power of attorney must be authenticated through the Saudi embassy or consulate in the concerned country.

One Subscription Application Form should be completed for each head of family applying for himself and members appearing on his family identification card, if these members apply for the same number of Offer Shares as the primary Investor. In this case:

a. All Offer Shares allocated to the primary Individual Investor and dependent Investors will be registered in the primary Individual Investor's name.
b. The primary Investor will receive any refund of amounts not allocated and paid for by himself and dependent Investors.
c. The primary Individual Investor will receive all dividends distributed in respect of the Offer Shares allocated to himself and dependent Individual Investors (in the event the shares are not sold or transferred).

Separate Subscription Application Forms must be used if:

a. The Offer Shares to be allocated are to be registered in a name other than the name of the primary Individual Investor.
b. Dependent Individual Investors intend to apply for a different number of Offer Shares than the primary Individual Investor.
c. If a wife wishes to subscribe in her name, adding allocated Offer Shares to her account, she must complete a Subscription Application separate from the Subscription Application Form completed by the relevant primary Individual Investor. In the latter case, applications made by husbands on behalf of their spouses will be cancelled and the independent application submitted by the wife will be processed by the Receiving Agent.

A Saudi female divorcee or widow who has minor children from a marriage to a non-Saudi husband can subscribe on behalf of those children provided she submits proof of motherhood

Only valid residency (Iqama) during the IPO will be accepted to identify non-Saudi dependents. Passports or birth certificates will not be accepted. Non-Saudi dependents may be included as dependents only with their mothers, and they cannot subscribe as primary subscribers. The maximum age for non-Saudi dependents to be included with their mother is 18, and any documents issued by any foreign government must be attested by the Kingdom's embassy or consulate in that country.

Each Individual Investor agrees to subscribe to and purchase the number of Offer Shares specified in the Subscription Application Form submitted by the Investor for an amount equal to the number of shares applied for multiplied by the Offer Price of twenty (20) Saudi Riyals per share. Each Investor shall be deemed to have purchased the number of Offer Shares allocated to him upon meeting the following conditions:

a. Delivery by the Individual Investor of the Subscription Application Form to any of the Receiving Agents.
b. Payment to the Receiving Agent of the total value of the Offer Shares subscribed to.

The total value of subscribed for Offer Shares must be paid in full at a Receiving Agent branch by authorizing a debit of the Individual Investor's account held with the Receiving Agent to whom the Subscription Application Form is being submitted.

If a submitted Subscription Application Form is not in compliance with the terms and conditions of the Offering, the Company shall have the right to reject such an application as a whole or in part. The Individual Investor shall accept any number of Offer Shares allocated thereto unless the allocated shares exceed the number of Offer Shares they applied for.

## 17-5 Allocation and Refund

The and the Receiving Agents will open an Escrow Account to be named (“**IPO Account**”), and each Receiving Agent must deposit the amounts it collected from subscribers in the mentioned Escrow Account.

The final allotment will be announced on 28/08/1443H (corresponding to 31/03/2022G) and the subscription surplus, if any, will be refund no later than 05/09/1443H (corresponding to 06/04/2022G).

## 17-6 Allocation of shares to Subscribed Entities

The Offer Shares will be finally allocated to the subscribed institutions as the Company deems appropriate, in consultation with the Lead Manager and the Financial Advisor after the Individual Subscriber tranche is allotted. The number of the Offer Shares that will be initially allocated to the subscribing institutions is (30,000,000) shares representing 100% of the total number of the Offer Shares. In the event of a sufficient demand from individual subscribers, the Lead Manager has the right to reduce the number of the Offer Shares allocated to the participating parties to (27,000,000) shares, representing 90% of the total Offer Shares after completing the individual subscription process.

## 17-7 Allocation of Offer Shares to Individual Investors

Ten (10) ordinary shares will be allocated to each individual subscriber as a minimum, and the remaining number of Offer Shares, if any, will be allocated for subscription to the individual subscribers tranche on a pro rata basis based on the ratio of what each individual subscriber requested to the total shares to be subscribed. The Lead Manager reserves the right to increase the number of shares allocated to individual subscribers to ten percent (10%) of the total Offer Shares and to reduce the number of shares allocated to the Participating Entities to ninety percent (90%) of the total Offer Shares, and if the number of individual subscribers exceeds more than Three hundred thousand (300,000) subscribers, the Company does not guarantee the allocation of the minimum of (10) shares to each individual subscriber, and in this case, the allocation will be at the discretion of the Company and the financial advisor propose.

It is expected that the final number of the Offer Shares allocated to each subscriber will be announced on 28/08/1443H (corresponding to 31/03/2022G) in addition to the subscription surplus, if any, which will be paid no later than 05/09/1443H (corresponding to 06/04/2022G).

The Receiving Agents will send notifications to the subscribers informing them of the final number of Offer Shares allocated to each of them along with the amounts that will be refunded. The subscription surplus, if any, will be returned to the subscribers without any commissions or deductions and will be deposited in the subscriber’s account with the concerned Receiving Agent. The final allocation process will be announced on 28/08/1443H (corresponding to 31/03/2022G) and the surplus will be returned no later than 05/09/1443H (corresponding to 06/04/2022G). The subscriber should communicate with the branch of the Receiving Agent to which he submitted the Subscription Application Form in case he wishes to obtain additional details.

Circumstances where Listing May be Suspended or Cancelled

## 17-8 Suspension or cancellation of listing

a. The CMA may suspend share trading or cancel the listing at any time as it deems fit, where:

- The CMA considers it necessary for the protection of investors or the maintenance of an orderly market.
- The Issuer fails, in a manner which the CMA considers material, to comply with the Capital Market Law, its implementing regulations or market rules.
- The Issuer fails to pay any fees due to the CMA or the Exchange or penalties due to the CMA on time.
- It deems that the Issuer or its business, the level of its operations or its assets is no longer suitable to warrant the continued listing of shares in the market.
- A reverse takeover announcement does not contain sufficient information about the proposed transaction. In the event that the Issuer has given sufficient information regarding the target entity and the CMA is satisfied, following the Issuer's announcement, that sufficient public information is available on the proposed transaction for the reverse takeover, the CMA may decide not to suspend trading at this stage.
- Information about the proposed transaction for the reverse takeover is leaked, and the Issuer cannot accurately assess its financial position and inform the market accordingly.

b. Lifting of a trading suspension imposed under paragraph (a) above is subject to the following:

- Adequately addressing the conditions that led to the suspension and the lack of the need to continue the suspension to protect investors.
- Lifting the suspension is unlikely to affect the normal activity of the Exchange.
- The issuer's compliance with any other conditions deemed appropriate by the Authority.

c. The Exchange shall suspend trading of the Company's securities where:

- The Issuer does not comply with the deadlines for the disclosure of its periodic financial information in accordance with the requirements of OSCOs, until such is disclosed.
- The auditor's report on the Company's financial statements contains an adverse opinion or disclaimer, until the adverse opinion or disclaimer is removed.
- The liquidity requirements of Chapters 2 and 8 of the Listing Rules are not met after listing, after the time limit set by the Exchange for the Company to rectify its conditions, unless the CMA agrees otherwise.
- The Issuer's Extraordinary General Assembly issues a decision to reduce its capital, for the two trading days following the issuance of the decision.

d. The Exchange may, at any time, suggest that the Authority suspend trading or cancel its listing if it believes that any of the cases mentioned in paragraph (a) above is likely to occur.
e. An issuer whose trading of securities has been suspended must continue to abide by the Law, its Implementing Regulations and the Exchange rules.
f. If the suspension of securities trading continues for a period of six (6) months without the issuer taking appropriate measures to correct that suspension, the Authority may cancel the listing of the issuer's securities.
g. When an issuer completes a reverse acquisition, the issuer's shares are de-listed. If the issuer wishes to re-list its shares, it must submit a new application to list its shares in accordance with the Listing Rules and fulfil the relevant requirements stipulated in the Rules on the Offer of Securities and Continuing Obligations.
h. The previous paragraphs do not prejudice the suspension of trading or cancellation of listing resulting from the Company's losses based on the relevant implementing regulations and market rules.

## 17-9 Voluntary Cancellation of Listing

a. An issuer whose securities have been listed on the Exchange may not cancel the listing of its securities without the prior approval of the CMA. To obtain CMA approval, the issuer must submit the cancellation application to the CMA along with a simultaneous notice to Exchange. The application must include the following:
- The specific reasons for the cancellation request.
- A copy of the disclosure described in item (d) below.
- A copy of the relevant documentation and a copy of all related communication to shareholders if the cancellation is to take place as a result of a takeover or other corporate action by the Issuer.
- Names and contact information of the financial advisor and legal advisor appointed under the Rules on the Offer of Securities and Continuing Obligations.

b. The CMA may, at its discretion, approve or reject the cancellation request.
c. The Issuer must obtain the approval of the Extraordinary General Assembly on the cancellation of the listing after obtaining CMA approval.
d. Where cancellation is made at the Issuer's request, the Issuer must disclose the same to the public as soon as possible. The disclosure must include the reason for the cancellation, the nature of the event resulting in the cancellation and how it affects the Issuer's activities.

## 17-10 Temporary Suspension of Trading

a. The Issuer may request the Exchange to implement a temporary trading suspension when an event occurs during trading hours which requires immediate disclosure under the Capital Market Laws and their implementing regulations, where the Issuer cannot maintain the confidentiality of this information until the end of the trading period. In such case, the Exchange suspends trading of the securities of that Issuer as soon as it receives the request.
b. Where a temporary trading suspension is made at the issuer's request, the issuer must announce as soon as possible the reason for the trading suspension, the anticipated period of the trading suspension, the event leading thereto and the event affecting the issuer's activities.
c. The CMA may impose a temporary trading suspension without a request from the issuer, where the CMA becomes aware of information or circumstances affecting the issuer's activities which the CMA considers likely to interrupt the operation of the Exchange or the protection of investors. An issuer whose securities are subject to a temporary trading suspension must continue to comply with the Capital Market Law, its implementing regulations and Exchange rules.
d. The Exchange may propose that the CMA exercise its authority under Paragraph (c) above if it finds that there are information or circumstances that may affect the issuer's activities and that are likely to interrupt the operation of the Exchange or the protection of investors.
e. A temporary trading suspension will be lifted following the elapse of the period referred to in Paragraph (b) above, unless the CMA or the Exchange decide otherwise.

## 17-11 Miscellaneous

a. The Subscription Application Form and all related terms, conditions and covenants hereof shall be binding upon and inure to the benefit of the parties to the subscription and their respective successors, permitted assigns, executors, administrators and heirs. Neither the Subscription Application Form nor any of the rights, interests or obligations arising pursuant thereto shall be assigned and delegated by any of the parties to the subscription without the prior written consent of the other party unless it is stated otherwise in this Prospectus.
b. These instructions, the conditions and the receipt of any Subscription Application Forms or related contracts shall be governed, construed and enforced in accordance with the laws of the Kingdom of Saudi Arabia.

c. Substantial Shareholders are subject to a lock-up period of six (6) months as of the date of starting the trading of the Company's shares on the Exchange, where they are prohibited from disposing of any of the Company's shares they own. After the lock-up period expires, Substantial Shareholders may dispose of their shares.
d. Despite the Authority's approval of this Prospectus, it may suspend this offering if the Company becomes aware at any time after the Authority's approval of this IPO and before approving the listing of shares in the market of the following: (1) There is a significant change in the material matters contained in the Prospectus. (2) The emergence of important issues that should have been included in the Prospectus.
e. In these cases, the Company is obligated to submit to the Authority a supplementary Prospectus, in accordance with the requirements of the rules on the Offer of Securities and Continuing Obligations, and the Listing Rules. The supplementary Prospectus must be issued, and an announcement of the applicable subscription dates must be made.
f. This Prospectus has been issued in Arabic

## 17-12 Approvals and Decisions for Offering and Listing the Offer Shares

The shares will be offered and listed pursuant to the following decisions and approvals:

a. The Company's Board of Directors' decision issued on 27/10/1442H (corresponding to 08/06/2021G).
b. Approval of the General Assembly on the Offering issued on 06/11/1442H (corresponding to 16/06/2021G).
c. Final approval of the Saudi Central Bank (SAMA) on the Offering issued on 09/02/1443H (corresponding to 16/09/2021G).
d. The Authority's approval of the Offering issued on 09/02/1443H (corresponding to 16/09/2021G).
e. Approval of the Saudi Tadawul Group "Tadawul Saudi" to list the shares.

Substantial Shareholders are subject to a lock-up period defined in the "**Offering Summary**" section of this Prospectus, during which they are prohibited from disposing of any of the Company's shares they own. After the said lock-up period expires, Substantial Shareholders may dispose of their shares.

It is expressly prohibited to distribute this Prospectus or sell the Offer Shares in any country other than the Kingdom of Saudi Arabia. The Company, the current shareholders, the Financial Advisor and the Lead Manager also require the recipients of this Prospectus to familiarize themselves with any statutory restrictions related to this IPO and the sale of the Offer Shares and to observe compliance with them.

## 17-13 Subscription commitments

### 17-13-1 Declarations and Undertakings for Subscription

By filling out the Subscription Application Form, the subscriber:

- Agrees to subscribe to the Company with the number of shares indicated in the Subscription Application.
- Acknowledges that he has read this Prospectus and all its contents, studied it carefully and understood its content.
- Agrees on the Company's articles of association and all the instructions and terms of the Offering and the conditions contained in this Prospectus.
- Declares that neither he nor any of the individuals included in the subscription application has previously submitted an application for subscription to the shares and agrees that the Company has the right to refuse double subscription.
- Declares his acceptance of the shares allocated to him under the subscription application (within the maximum amount he has subscribed) and his acceptance of all the terms and instructions for subscription contained in the application and in this Prospectus.

- Undertakes not to cancel or amend the Subscription Application after submitting it to the Lead Manager or to the Receiving Agent.
- Undertakes not to waive his right to claim and recourse to the Company for any damage directly caused by the fact that this Prospectus contains incorrect or insufficient material information, or as a result of the omission of material information that affects the subscriber's decision to subscribe if it has been added to the Prospectus.

## 17-14 Saudi Stock Exchange (Tadawul)

Tadawul system was established in 2001 as an alternative system to the electronic securities information system. The trading of shares in the Kingdom began in 1990 AD. The number of listed companies and real estate funds traded in the stock market to date is 200 companies.

The trading process is carried out through an integrated electronic system, which covers the trading process in an integrated manner, starting from the execution of the transaction and ending with the settlement. Trading takes place daily in one period from 10 am to 3 pm, during which orders are executed. Outside these times, orders are allowed to be entered, modified and canceled from 9:30 am to 10:00 am, and new restrictions and inquiries can be made starting from 10:00 am for the opening session. These times may be changed by the Saudi Stock Exchange Company.
Transactions are executed through automated matching of orders, and orders are received and prioritized according to price. In general, market orders are executed first (these are orders with the best prices), followed by specific price orders, and in the event that several orders are entered at the same price, they are executed according to the timing of the entry. The Tadawul system distributes a comprehensive range of information through various channels, most notably the Tadawul website and Tadawul information links. Market data is provided instantly to well-known information providers such as Reuters and Bloomberg.

Transactions are settled automatically during the day, meaning that the transfer of ownership of the shares takes place immediately after the execution of the transaction. Therefore, issuers of shares should disclose all decisions and information of interest to investors through Tadawul system. It is the responsibility of Tadawul Management to monitor the market as it is the operator of the mechanism through which the market operates in order to ensure the fairness of trading and the efficiency of market operations.

## 17-15 Securities Depository Center Company (Edaa)

Securities Depository Center Company (Edaa) was established in 2016G as a closed joint stock company in accordance with the Saudi Companies Law issued by Royal Decree No. M/3 dated 28/01/1437H, with a capital of SAR 400,000,000 divided into 40,000,000 shares, with a nominal value of SAR 10 per share, and is fully owned by the Exchange.

The establishment was based on CMA approval of Tadawul's Board of Directors request in relation to conversion of the Securities Depository Center into a joint stock company in accordance with the Capital Market Law issued by Royal Decree No. M/30 dated 02/06/1424H.

The activities of Edaa are to conduct businesses related to depositing, registering, transferring, settling and clearing securities, and recording any ownership restrictions on the deposited securities. Further, it deposits and manages the records of the issuers of securities, and organises issuers' general assemblies, including the remote voting services (e-Voting), reporting, notifications, and information, as well as providing other related services that Edaa may provide in accordance with CML and its implementing regulations

## 17-16 Trading the Company's shares on the Exchange

It is expected that the trading of the Company's shares will start after the final allocation of those shares, and the Tadawul announcement of the starting date of trading the Company's shares. The dates and times mentioned in this Prospectus are considered initial dates mentioned for inference only and can be changed or extended with the approval of the Authority.

It is not possible to trade in the Offer Shares except after approving the allocation of shares in the accounts of the subscribers on Tadawul, and after registering the Company and listing its shares on the Exchange. The subscribers who deal in these prohibited trading activities shall bear full responsibility for them The Company will not bear any legal responsibility in this case.

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# Documents Available for Inspection

# 18- Documents Available for Inspection

The following documents will be available for inspection at the Company's head office on King Abdulaziz Road, Al-Murabba District, P.O. Box 27072 Riyadh 11417 - Kingdom of Saudi Arabia, between 9:00 am and 5:00 pm on 29/07/1443H (corresponding to 02/03/2022G) Until 26/08/1443H (corresponding to 29/03/2022G), provided that such period shall not be less than 20 days before the end of the Offering period.

- A copy of the Authority's announcement of the offer of shares.
- The Company's articles of association, its amendments, and other incorporation documents.
- Commercial Register of the Issuer.
- Evaluation report of the Issuer prepared by the Financial Advisor.
- Audited financial statements of the Company for the fiscal years ending on December 31, 2018, 2019 and 2020 and the nine-month period ending on September 30, 2021.
- Transactions and Contracts with Related Parties mentioned in Section (12-10).
- IPO management agreement.
- Underwriting agreement for the IPO.
- Reports, letters, other documents, value estimates and statements prepared by any expert, and any part of them is Included or referred to in this Prospectus.
- Written consents from:
  - Riyad Capital Company (Riyadh capital) to refer to them in this Prospectus as the Financial Advisor, Bookrunner, underwriter and Lead Manager;
  - Mohammad Al-Dabaan Law Firm and Legal Consultations for referring to them in this Prospectus as a Legal Advisor for the Offering;
  - Arabian Market Vision Co. Ltd - 4SIGHT, for referring to them in this Prospectus as Market and Sector Research Consultants;
  - PricewaterhouseCoopers for referring to them in this Prospectus as a Financial Due Diligence Advisor;
  - The auditors KPMG Professional Consulting for publishing their audit reports in this Prospectus;
  - Market report prepared by Market and Sector Research Consultants.
  - A document of approval by the General Assembly and the Board of Directors on the Offering.

19

# Financial Statements and Auditor’s Report

# 19- Financial Statements and Auditor's Report

This section contains the Company's audited financial statements for the fiscal year ending on December 31, 2018, and the accompanying notes that were included in other parts of this Prospectus that have been prepared in accordance with International Financial Reporting Standards ("IFRS") as amended by the Central Bank of Saudi Arabia (SAMA). The Company's audited financial statements for the financial years ending on December 31, 2019 and 2020 and the reviewed interim statements for the six-month period ending on June 30, 2021 and the notes attached to them that were included in other parts of this prospectus have been prepared in accordance with the approved International Financial Reporting Standards ("IFRS") in the Kingdom of Saudi Arabia and other publications approved by the Saudi Organization for Certified Public Accountants ("SOCPA").

## 19-1 Financial Statements For the year ended 31 December 2018

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

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

**KPMG Al Fozan & Partners**
**Certified Public Accountants**
KPMG Tower
Salahudeen Al Ayoubi Road
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License No. 46/11/323 issued 11/3/1992

# Independent auditors' report

## To the shareholders of Saudi Home Loans Company

### Opinion

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

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

### Basis for opinion

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

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

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

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

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

### Auditors' responsibilities for the audit of the financial statements

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

KPMG

# Independent auditors' report

## To the shareholders of Saudi Home Loans Company (continued)

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

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

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

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

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

كي بي إم جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Abdullah Hamad Al Fozan
License No: 348

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

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

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

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

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

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

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

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

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

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

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

| | | For the year ended 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|---|
| | *Notes* | **Share capital** | **Statutory reserve** | **General Reserve** | **Actuarial gains on end of service benefits** | **Retained earnings** | **Total Equity** |
| Balance at beginning of the year, as restated | | **1,000,000,000** | **88,109,628** | **40,604,666** | **--** | **305,676,175** | **1,434,390,469** |
| Impact of adopting new standard (IFRS 9) at 1 January 2018 | *3a* | **--** | **--** | **--** | **--** | **(32,599,220)** | **(32,599,220)** |
| Balance at beginning of the year, as restated | | **1,000,000,000** | **88,109,628** | **40,604,666** | **--** | **273,076,955** | **1,401,791,249** |
| Net income for the period | | **--** | **--** | **--** | **--** | **75,780,162** | **75,780,162** |
| Actuarial gains for end of service benefits | *18* | **--** | **--** | **--** | **406,970** | **--** | **406,970** |
| Total comprehensive income for the period | | **--** | **--** | **--** | **406,970** | **75,780,162** | **76,187,132** |
| Reclassification of general reserve to retained earnings | *3iii, 20* | **--** | **--** | **(40,604,666)** | **--** | **40,604,666** | **--** |
| Transfer to statutory reserve | *20* | **--** | **7,578,016** | **--** | **--** | **(7,578,016)** | **--** |
| Zakat and income tax | *16* | **--** | **--** | **--** | **--** | **(36,507,867)** | **(36,507,867)** |
| Balance at end of the year | | **1,000,000,000** | **95,687,644** | **--** | **406,970** | **345,375,900** | **1,441,470,514** |

| | | For the year ended 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|---|
| | *Notes* | Share capital | Statutory reserve | General Reserve | Actuarial gains on end of service benefits | Retained earnings | Total Equity |
| Balance at beginning of the year, as reported | | 800,000,000 | 58,101,786 | 50,607,280 | -- | 434,145,225 | 1,342,854,291 |
| Prior period adjustment – IAS 19 (Note 18) | *31* | -- | -- | -- | -- | (1,495,901) | (1,495,901) |
| Balance at beginning of the year, as restated | | 800,000,000 | 58,101,786 | 50,607,280 | -- | 432,649,324 | 1,341,358,390 |
| Capitalisation of profit | | 200,000,000 | -- | -- | -- | (200,000,000) | -- |
| Total comprehensive income for the period (restated) | | -- | -- | -- | -- | 99,688,635 | 99,688,635 |
| Transfer to statutory reserve | *20* | -- | 30,007,842 | (10,002,614) | -- | (20,005,228) | -- |
| Zakat and income tax | *16* | -- | -- | -- | -- | (6,656,556) | (6,656,556) |
| Balance at end of the year, as restated | | 1,000,000,000 | 88,109,628 | 40,604,666 | -- | 305,676,175 | 1,434,390,469 |

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

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

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

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

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

## 1. THE COMPANY AND PRINCIPAL ACTIVITIES

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

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

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

## 2. BASIS OF PREPARATION

### a) *Statement of compliance*

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

### b) *Basis of measurement and presentation*

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

### c) *Functional and presentation currency*

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

### a) *Critical* accounting judgments, estimates and assumptions

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

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

## 2. BASIS OF PREPARATION (CONTINUED)

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### A. Change in accounting policies

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

### a. Adoption of new standards

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

#### 1) IFRS 15 Revenue from Contracts with Customers

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

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

#### 2) IFRS 9 Financial Instruments

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2) IFRS 9 Financial Instruments (continued)

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

***Classification of financial assets and financial liabilities***

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

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

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

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

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

***Impairment of financial assets***

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***IFRS 7 (Revised)***

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

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

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

***Transition***

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

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018.

- Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as FVOCI.
  - For financial liabilities designated as at FVTPL, if any, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### A. Financial assets and financial liabilities

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

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

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

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

### B. Policies applicable from 1 January 2018

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

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

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

***a) Classification of financial assets***

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Financial assets at amortized cost**

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

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

- **Financial assets at FVOCI**

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

***Business model assessment***

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

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

***b) Classification of financial liabilities***

***(Policy applicable before 1 January 2018)***

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

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

***(Policy applicable after 1 January 2018)***

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

***c) Derecognition***

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

### d) *Modification of financial assets and financial liabilities*

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

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

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

### *e) Impairment*

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

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

No impairment loss is recognized on equity investments.

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement of ECL**

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

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

**Restructured financial assets**

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset ; and

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- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition .This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

**Credit-impaired financial assets**

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

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

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

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

**Presentation of allowance for ECL in the statement of financial position**

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Write-off**

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

***f) Income / expense recognition***

**i. Income and expenses**

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

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

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

**ii. Measurement of amortized cost and income**

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

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

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

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Policies applicable before adoption of IFRS 9

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

### i) Investments

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

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

***Investment***

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

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

### ii) *Impairment of investments in finance lease*

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

### iii) *Derecognition*

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

### D. Cash and cash equivalents

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

### E. Investment in finance lease

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### E. Investment in finance lease (continued)

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

***Recognition***

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

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

### *F. Service fees*

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

### *G. Application and evaluation fee income*

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

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

### *H. End of service benefits*

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *I. Property and equipment*

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

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

| | *Rate* |
|---|---|
| Leasehold improvements | 10% |
| Motor vehicles | 25% |
| Furniture, fixture and office equipment | 10%-25% |
| Computers | 25%-33.3% |

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

### *J. Other real estate*

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

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

**Collateral valuation**

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### J. *Other real estate*

**Collateral repossessed**

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

### K. *Intangible assets*

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

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

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

### L. *Impairment of non - financial assets*

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

### M. *Accounting for leases*

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(ii) Where the Company is the lessor**

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

### *N. Deferred origination fees*

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

### *O. Advance lease rental*

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

### *P. Accrued expenses and other liabilities*

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

### *Q. Other provision*

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

### *R. Proposed dividend and transfer between reserves*

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

### *S. Estimated zakat and income tax*

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *T. General and administrative expenses*

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

### *U. Selling and marketing expense*

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

### *V. Transactions with related parties*

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

### *W. Foreign currency transactions*

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

## 4. CASH AND CASH EQUIVALENTS

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

| | **2018** | 2017 |
|---|---|---|
| Cash in hand | **17,500** | 17,500 |
| Bank current accounts | **79,625,834** | 25,068,978 |
| | **79,643,334** | 25,086,478 |

## 5. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprised of the following:

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

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

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

## 6. ADVANCES TO PROPERTY OWNERS

This balance represents the amounts of certified cheques issued under the property owners' name, for the purchase of properties of the Company's Ijara Contracts (approved deals) and for which the transfer of title deeds, in the name of the Company, is in process. These certified cheques are submitted by official Company representatives directly at the Registration office at the time of title deed transfer. Risk and reward of such Ijarah contracts are not transferred as at the date of statement of financial position.

## 7. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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

| **Name** | **Relationship** |
|---|---|
| Arab National Bank | Shareholder |
| International Financial Corporation | Shareholder |
| Kingdom Instalment company | Shareholder |
| Afwaf Investment Company | Affiliate |
| ANB Metlife | Affiliate |

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

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

Due from related parties comprised of the following:

| | **2018** | 2017 |
|---|---|---|
| Arab National Bank | **897,247** | 1,031,358 |
| | **897,247** | 1,031,358 |

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## 7. RELATED PARTY TRANSACTIONS (CONTINUED)

**Compensation of directors and other key management personnel**

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

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

## 8. INVESTMENT

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

Pursuant to Article 18/1 of the financial leasing law, Saudi Financial Lease Contract Registry Company (“SFLCRC”) was established on 3/2/1439, corresponding to 23 October 2017, under CR No. 1010612415, and SAMA approval no. 381000124076 dated 23/12/1438, corresponding to 14 September 2017.

This Company has been set up by SAMA as a means to further regulate the market and facilitate transfer of leases between suppliers of finance and counterparties. SFLCRC has 700,000 shares of SR 10 each. These 700,000 shares have been divided between finance lease companies registered and operating in Saudi Arabia. On 17 December 2017, Saudi Home Loans Company purchased 89,285 shares at SR 10 each, amounting to SR 892,850.

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

## 9. INVESTMENTS IN FINANCE LEASE - NET

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

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

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

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## 9. INVESTMENTS IN FINANCE LEASE – NET (CONTINUED)

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

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

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

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

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

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

9.3 Maturity profile of the lease payments is as follows:

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

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## 9. INVESTMENTS IN FINANCE LEASE – NET (CONTINUED)

**Collateral**

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

## 10. DEFERRED ORIGINATION FEES

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

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

The movement in deferred origination fees is shown below:

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

## 11. OTHER REAL ESTATE

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

| | **2018** | 2017 |
|---|---|---|
| At beginning of the year | **1,079,685** | 1,079,685 |
| Repossession during the year | **1,750,000** | -- |
| At end of the year | **2,829,685** | 1,079,685 |

## 12. INTANGIBLE ASSETS

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

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

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## 13. PROPERTY AND EQUIPMENT, NET

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

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

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## 14. ACCOUNTS PAYABLE

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

As at 31 December 2018, the Company's accounts payable includes an amount due to MOH totalling to SAR 22.59 million (31 December 2017: nil). This represents purchase price of the properties where the Company has already entered into Ijarah finance lease contracts with customers while the title deeds are yet to be transferred in the name of the Company.

## 15. ACCRUED EXPENSES AND OTHER LIABILITIES

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

## 16. PROVISION FOR ZAKAT AND INCOME TAX

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

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

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

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

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

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

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## 16. PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED)

Subsequent to the end of reporting date of the financial statements, the Company has received a proposed settlement agreement from the GAZT dated 6 February 2019 to settle certain amount and clear for any outstanding assessments relating to zakat for the financial years from 2014 to 2017 and provides a settlement calculation method for financial year 2018. The Company has accepted and signed this settlement agreement which was approved by the Board of Directors on 21 February 2019. As such, the provision for zakat is as follows based on the terms of the settlement agreement:

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

b. For the financial year 2018, the Company has recognised provision for zakat amounting to SR 5.99 million.

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

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

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

## 17. TAWARRUQ FINANCING FACILITIES

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

This item represents the Tawarruq financing facilities from Arab National Bank (shareholder) ("ANB"), International Finance Corporation (Shareholder) ("IFC") and Gulf International Bank ("GIB") to finance the investments in finance lease. ANB facilities are secured by promissory notes, transfer of certain property title deeds ownership and assignment of contracts and proceeds from investments in finance lease covering 105% of the outstanding facilities amounting to SR 2,216,981,528 in favour of the bank. These facilities bear finance charges at 6months SIBOR plus annual profit margin of 2%. ANB facility repayment schedule is based on equal semi-annual payments and the remaining 80% will be repaid as a lump sum on the final maturity date.

The Company has a Murabaha facility with GIB dated September 2015, for a period of 5 years; 20% of which will be repaid in 10 equal semi-annual payments and the remaining 80% will be repaid as a lump sum on the final maturity date. The facility is secured through the issuance of promissory notes and against contract receivables covering 120% amounting to SR 503,707,960 of the finance amount. The facility bears a finance charge of 6 months SIBOR plus a profit margin of 1.95% for the first agreement and the 2% for the second.

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## 17. TAWARRUQ FINANCING FACILITIES (CONTINUED)

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

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

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

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

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

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

Tawarruq financing facilities are scheduled for repayment as follows:

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

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## 18. END OF SERVICE BENEFITS

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

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

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

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

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

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

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

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

| | **2018** | 2017 |
|---|---|---|
| Discount rate | **4.55%** | 3.15% |
| Expected rate of salary increase | **5.0%** | 3.6% |
| Normal retirement age | **60** | 60 |

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

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## 18. END OF SERVICES BENEFITS (CONTINUED)

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

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

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

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

## 19. SHARE CAPITAL

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

The ownership of the company's share capital is as follows:

| | **No. of shares** | **Share capital** |
|---|---|---|
| Arab National Bank | 40,000,000 | 400,000,000 |
| Dar Al Arkan Real Estate Development Company | 15,000,000 | 150,000,000 |
| Kingdom Instalment Company | 9,000,000 | 90,000,000 |
| Youssef bin Abdullah Al Shalash | 8,000,000 | 80,000,000 |
| Tareq Mohammad Al Jarallah | 6,000,000 | 60,000,000 |
| Hathlool Bin Saleh Al Hathlool | 6,000,000 | 60,000,000 |
| International Finance Corporation | 5,000,000 | 50,000,000 |
| Abdulatif Bin Abdullah Al Shalash | 5,000,000 | 50,000,000 |
| Inma Almadaen Company | 4,000,000 | 40,000,000 |
| Daem Al Khaleej Company | 2,000,000 | 20,000,000 |
| **Total** | **100,000,000** | **1,000,000,000** |

## 20. STATUTORY RESERVES

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

On 27 Rabi II 1438H, corresponding to 25 January 2017, SAMA issued circular number 381000046342, whereby financing companies were required to maintain a minimum general provision at 1% of their outstanding investments in finance lease exposure after deducting the non-performing portfolio. Therefore, to comply with this requirement of SAMA, the Company set aside the required amount as a general reserve from equity which amounted to SR 40.60 million as at 31 December 2017.

With the implementation of IFRS 9 from 1 January 2018, a provision for expected credit losses was created from the retained earnings amounting to SR 32 million. Therefore, management decided to reclassify this excess provision of SR 40.60 million from general reserve back to retained earnings as shown in the statement of changes in equity.

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## 21. SERVICE FEE, NET

In 2014, the Company entered into an Asset Sale Agreement with Arab National Bank ("ANB") to sell investments in finance lease with a carrying value of SR 706.5 million represented by 1,404 deals. This comprised of three transactions executed on March 27, 2014, May 22, 2014, and July 20, 2014 ("sold portfolio") respectively.

As part of this Asset Sale Agreement, ANB and the Company also signed an agreement in relation to this sold portfolio to be recognised, based on an agreed profit sharing schedule built upon monthly instalments from this sold portfolio to compensate for the administrative services provided by the Company which is based on market rate. ANB has no recourse to the Company in relation to any default/loss on the outstanding balance of the investments in finance lease and related insurance claims receivable, if any. Thus, all substantial risks and rewards associated with the sold portfolio were transferred to ANB at the time of sale in 2014 hence derecognized by the Company.

Fees earned from sold portfolio during the period ended 31 December 2018 is SR 10.16 million (SR 11.57 million during the period ended 31 December 2017).

## 22. SELLING AND MARKETING EXPENSES

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

## 23. GENERAL AND ADMINISTRATIVE EXPENSES

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

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## 24. OPERATING LEASE – COMPANY AS A LESSEE

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

| **Rent under non-cancellable contract** | **2018** | 2017 |
|---|---|---|
| Less than 1 year | **2,764,600** | 2,764,600 |

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

## 25. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

### i. Credit quality analysis

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

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

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

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

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

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

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

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

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

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

**ii. Generating the term structure of PD**

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

**ii) Determining whether credit risk has increased significantly**

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

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

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

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

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

**iii) Modified financial assets**

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

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

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

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

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

### iv) Definition of 'Default'

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

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

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

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

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

### v) Incorporation of forward looking information

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

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

### vi) Measurement of ECL

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

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

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

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

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

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

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

### c. Loss allowance

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

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

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

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

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

### d. Collateral

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

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(A Saudi Closed Joint Stock Company)
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**For the year ended 31 December 2018**
*(Amounts in Saudi Riyals)*

## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

### Liquidity risk

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

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

| | Less than 12 months | More than 12 months | 2018 | Less than 12 months | More than 12 months | 2017 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and bank balances | 79,643,334 | -- | 79,643,334 | 25,086,478 | -- | 25,086,478 |
| Invest. in finance lease (gross) | 302,792,074 | 3,954,432,938 | 4,257,225,012 | 285,827,889 | 3,908,108,149 | 4,193,936,038 |
| Unearned Finance Income* | 306,191,464 | 2,269,558,541 | 2,575,750,005 | 263,637,880 | 2,098,576,684 | 2,362,214,564 |
| Prepaid expenses and other assets | 37,999,480 | | 37,999,480 | 32,831,646 | | 32,831,646 |
| Deferred origination fees | 3,137,011 | 26,673,225 | 29,810,236 | 3,188,203 | 29,249,112 | 32,437,315 |
| Advances to property owners | 5,911,286 | -- | 5,911,286 | 11,756,000 | -- | 11,756,000 |
| Due from related parties | 897,247 | -- | 897,247 | 1,031,358 | -- | 1,031,358 |
| **Total assets** | 736,571,896 | 6,250,664,704 | 6,987,236,600 | 623,359,454 | 6,035,933,945 | 6,659,293,399 |

| | Less than 12 months | More than 12 months | 2018 | Less than 12 months | More than 12 months | 2017 |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Tawarruq financing facilities | 643,677,938 | 2,173,082,129 | 2,816,760,067 | 298,296,606 | 2,526,135,267 | 2,824,431,873 |
| Financial charges** | 103,739,038 | 230,538,961 | 334,277,999 | 113,798,052 | 217,528,764 | 331,326,816 |
| Special commission payable on Tawarruq financing | 7,478,094 | -- | 7,478,094 | 3,668,747 | -- | 3,668,747 |
| Accounts payable | 30,937,901 | -- | 30,937,901 | 1,755,816 | -- | 1,755,816 |
| Advance payments received from customers | 7,778,549 | -- | 7,778,549 | 11,604,229 | -- | 11,604,229 |
| Accrued expenses and other liabilities | 6,507,469 | -- | 6,507,469 | 5,841,429 | -- | 5,841,429 |
| Provision for Zakat and income tax | 36,413,896 | -- | 36,413,896 | 6,176,005 | -- | 6,176,005 |
| Provision for end of service benefits | -- | 8,590,316 | 8,590,316 | -- | 5,894,693 | 5,894,693 |
| **Total liabilities** | 836,532,885 | 2,412,211,406 | 3,248,744,291 | 441,140,884 | 2,749,558,724 | 3,190,699,608 |
| **Net** | (99,960,989) | 3,838,453,298 | 3,738,492,309 | 182,218,570 | 3,286,375,221 | 3,468,593,791 |

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

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

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

## 26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market is accessible by the Company. Financial instruments comprise of Ijarah receivables and investments.

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

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

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

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

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

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(*Amounts in Saudi Riyals*)

## 26. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

| | | 31 December 2018 | | | |
|---|---|---|---|---|---|
| | **Carrying Value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Net investments in finance leases | **4,190,325,349** | **--** | **--** | **4,185,195,879** | **4,185,195,879** |
| Investment | **892,850** | **--** | **--** | **892,850** | **892,850** |
| Total | | **--** | **--** | **4,186,088,729** | **4,186,088,729** |

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

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

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

## 27. CAPITAL MANAGEMENT

The Company manages and controls its capital structure and liquidity needs in order to safeguard the Company's ability to meet its future obligations and growing plans and continue as a going concern. The Company monitors the adequacy of its capital using below measures:

| | **2018** | 2017 |
|---|---|---|
| | **Total capital ratio %** | Total capital ratio % |
| Capital ratio | **23.12%** | 23.83% |

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

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

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

## 28. COMMITMENT AND CONTINGENCIES

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

## 29. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

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

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

   The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value, if any.

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

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

## 30. SUBSEQUENT EVENTS

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

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

## 31. RETROSPECTIVE RESTATEMENT DUE TO ERROR

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

*Statement of financial position*

As at 31 December 2017

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

*Statement of income*

For the year ended 31 December 2017

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

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

*Statement of cash flows*

For the year ended 31 December 2017

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

## 32. BOARD OF DIRECTORS APPROVAL

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

## 19-2 Financial Statements For the year ended 31 December 2019

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**FINANCIAL STATEMENTS**
**For the year ended 31 December 2019**
Together with the
**Independent auditors' report**

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**For the year ended 31 December 2019**

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**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF FINANCIAL POSITION**
As at 31 December 2019
(*Amounts in Saudi Riyals*)

| | Note | 31 December 2019 | 31 December 2018 (Restated) | 1 January 2018 (Restated) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 4 | **54,199,589** | 79,643,334 | 25,086,478 |
| Prepaid expenses and other assets, net | 5 | **63,774,329** | 37,999,480 | 23,739,306 |
| Advances to property owners | 6 | **2,392,568** | 5,911,286 | 11,756,000 |
| Due from related parties | 7 | **765,379** | 897,247 | 1,031,358 |
| Investment | 8 | **892,850** | 892,850 | 892,850 |
| Investments in finance lease, net | 9 | **4,238,416,012** | 4,190,325,349 | 4,158,225,388 |
| Deferred origination fees | 10 | **25,791,599** | 29,810,236 | 32,437,315 |
| Other real estate | 11 | **6,963,475** | 2,829,685 | 1,079,685 |
| Right-of-use asset | 12 | **6,309,047** | -- | -- |
| Property and equipment, net | 13 | **4,767,583** | 4,065,263 | 4,599,050 |
| Deferred tax assets | 17 | **4,563,723** | 4,068,676 | 2,613,281 |
| Intangible assets, net | 14 | **3,157,336** | 3,562,076 | 4,629,601 |
| **Total assets** | | **4,411,993,490** | 4,360,005,482 | 4,266,090,312 |
| **LIABILITIES AND EQUITY** | | | | |
| **Liabilities** | | | | |
| Accounts payable | 15 | **50,593,077** | 30,937,901 | 1,755,816 |
| Accrued expenses and other liabilities | 16 | **8,607,271** | 6,507,469 | 5,841,429 |
| Advance lease rentals | | **7,496,185** | 7,778,549 | 11,604,229 |
| Lease liability | 12 | **5,929,977** | -- | -- |
| Provision for zakat and income tax | 17 | **27,978,017** | 36,413,896 | 6,655,591 |
| Tawarruq financing facilities | 18 | **2,801,922,613** | 2,824,238,161 | 2,828,100,620 |
| End of service benefits | 19 | **9,376,906** | 8,590,316 | 7,728,097 |
| **Total liabilities** | | **2,911,904,046** | 2,914,466,292 | 2,861,685,782 |
| **Equity** | | | | |
| Share capital | 20 | **1,000,000,000** | 1,000,000,000 | 1,000,000,000 |
| Statutory reserve | 21 | **97,648,519** | 92,182,397 | 88,109,628 |
| Actuarial gains on end of service benefits | 19 | **296,000** | 406,970 | -- |
| Retained earnings | | **402,144,925** | 352,949,823 | 316,294,902 |
| **Total equity** | | **1,500,089,444** | 1,445,539,190 | 1,404,404,530 |
| **Total liabilities and equity** | | **4,411,993,490** | 4,360,005,482 | 4,266,090,312 |

The accompanying notes from (1) to (30) are an integral part of these financial statements.

These financial statements were approved by the Board of Directors of the Company on 1 March 2020 and have been signed on its behalf by the following:

**Chief Executive Officer** **Chief Financial Officer**

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF INCOME**
**For the year ended 31 December 2019**
(*Amounts in Saudi Riyals*)

| | *Notes* | **2019** | 2018 (Restated) |
|---|---|---|---|
| Lease finance income | | **298,571,687** | 302,058,066 |
| Service fees, net | *22* | **8,782,622** | 10,156,303 |
| Application and evaluation fee income | | **4,014,306** | 2,931,848 |
| Other income | | **--** | 238,472 |
| **Total operating income** | | **311,368,615** | 315,384,689 |
| Finance charges | *18* | **137,200,554** | 131,699,801 |
| General and administrative expenses | *23* | **56,341,279** | 50,692,295 |
| Provision for expected credit losses | *5, 9* | **11,223,703** | 32,188,965 |
| Selling and marketing expenses | *24* | **27,877,731** | 25,023,466 |
| **Total operating expenses** | | **232,643,267** | 239,604,527 |
| **Net income before zakat and income tax** | | **78,725,348** | 75,780,162 |
| Zakat and income tax expense for the current year | *17* | **(11,727,305)** | (11,047,069) |
| Zakat for the prior years | *17* | **(12,831,866)** | (25,460,798) |
| Deferred tax | *17* | **495,047** | 1,455,395 |
| | | **(24,064,124)** | (35,052,472) |
| **Net income after zakat and income tax** | | **54,661,224** | 40,727,690 |

The accompanying notes from (1) to (30) are an integral part of these financial statements.

These financial statements were approved by the Board of Directors of the Company on 1 March 2020 and have been signed on its behalf by the following:

**Chief Executive Officer** **Chief Financial Officer**

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF COMPREHENSIVE INCOME**
**For the year ended 31 December 2019**
(*Amounts in Saudi Riyals*)

| | Note | 2019 | 2018 (Restated) |
|---|---|---|---|
| **Net income after zakat and income tax** | | **54,661,224** | 40,727,690 |
| **Other comprehensive income** | | | |
| ***Item that cannot be reclassified to statement of income*** | | | |
| Actuarial (losses) / gains on end of service benefits | *19* | **(110,970)** | 406,970 |
| **Total comprehensive income for the year** | | **54,550,254** | 41,134,660 |

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
**For the year ended 31 December 2019**
(*Amounts in Saudi Riyals*)

**For the year ended 31 December 2019**

| | *Note* | **Share capital** | **Statutory reserve** | **Actuarial gains on end of service benefits** | **Retained earnings** | **Total Equity** |
|---|---|---|---|---|---|---|
| Balance at 1 January 2019 | | **1,000,000,000** | **92,182,397** | **406,970** | **352,949,823** | **1,445,539,190** |
| Net income for the year | | **--** | **--** | **--** | **54,661,224** | **54,661,224** |
| Actuarial losses for end of service benefits | *19* | **--** | **--** | **(110,970)** | **--** | **(110,970)** |
| Total comprehensive (loss) / income for the year | | **--** | **--** | **(110,970)** | **54,661,224** | **54,550,254** |
| Transfer to statutory reserve | *21* | **--** | **5,466,122** | **--** | **(5,466,122)** | **--** |
| **Balance at 31 December 2019** | | **1,000,000,000** | **97,648,519** | **296,000** | **402,144,925** | **1,500,089,444** |

For the year ended 31 December 2018 (Restated)

| | *Note* | Share Capital | Statutory Reserve | General Reserve | Actuarial gains on end of service benefits | Retained earnings | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2018, as reported | | 1,000,000,000 | 88,109,628 | 40,604,666 | -- | 305,676,175 | 1,434,390,469 |
| Impact of adopting IFRS 9 | | -- | -- | -- | -- | (32,599,220) | (32,599,220) |
| Impact of adopting IAS 12 | | -- | -- | -- | -- | 2,613,281 | 2,613,281 |
| Reclassification of general reserve to retained earnings | | -- | -- | (40,604,666) | -- | 40,604,666 | -- |
| Balance at 1 January 2018, as restated | | 1,000,000,000 | 88,109,628 | -- | -- | 316,294,902 | 1,404,404,530 |
| Net income for the year | | -- | -- | -- | -- | 40,727,690 | 40,727,690 |
| Actuarial gains for end of service benefits | *19* | -- | -- | -- | 406,970 | -- | 406,970 |
| Total comprehensive income for the year | | | | | 406,970 | 40,727,690 | 41,134,660 |
| Transfer to statutory reserve | *21* | -- | 4,072,769 | | -- | (4,072,769) | -- |
| **Balance at 31 December 2018, as restated** | | 1,000,000,000 | 92,182,397 | -- | 406,970 | 352,949,823 | 1,445,539,190 |

The accompanying notes from (1) to (30) are an integral part of these financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF CASH FLOWS**
**For the year ended 31 December 2019**
(*Amounts in Saudi Riyals*)

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income before zakat and income tax | | **78,725,348** | 75,780,162 |
| *Adjustments to reconcile net income to net cash generated from operating activities:* | | | |
| Depreciation and amortisation | 23 | **5,326,776** | 2,778,296 |
| Amortisation of deferred origination fees | 10 | **4,127,500** | 3,746,170 |
| Provision for expected credit losses | 5, 9 | **11,223,703** | 32,188,965 |
| Provision for end of service benefits | 19 | **1,879,114** | 1,638,030 |
| Financial charges for lease liability | 12 | **527,396** | -- |
| *Net (increase) / decrease in operating assets:* | | | |
| Prepaid expenses and other assets, net | | **(25,671,883)** | (15,260,126) |
| Due from related parties | | **131,868** | 134,111 |
| Advances to property owners | | **3,518,718** | 5,844,714 |
| Investments in finance lease | 9 | **(63,551,112)** | (65,038,974) |
| *Net increase / (decrease) in operating liabilities:* | | | |
| Accounts payable | | **19,655,176** | 29,182,085 |
| Accrued expenses and other liabilities | 16 | **2,099,794** | 666,040 |
| Advance lease rentals | | **(282,364)** | (3,825,680) |
| **Net cash from operations** | | **37,710,034** | 67,833,793 |
| Zakat and income tax paid | 17 | **(32,995,050)** | (6,749,562) |
| End of service benefits paid | 19 | **(1,203,494)** | (368,841) |
| Deferred origination fees paid | 10 | **(108,863)** | (1,119,091) |
| **Net cash generated from operating activities** | | **3,402,627** | 59,596,299 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | 13 | **(1,677,378)** | (554,861) |
| Purchase of intangible assets | 14 | **(1,400,881)** | (622,123) |
| **Net cash used in investing activities** | | **(3,078,259)** | (1,176,984) |
| **FINANCING ACTIVITIES** | | | |
| Additions in Tawarruq financing facilities | 18 | **365,486,400** | 282,478,094 |
| Repayment of Tawarruq financing facilities | 18 | **(387,801,948)** | (286,340,553) |
| Payment of principal portion of lease liability | 12 | **(3,452,565)** | -- |
| **Net cash used in financing activities** | | **(25,768,113)** | (3,862,459) |
| **Net increase / (decrease) in cash and cash equivalents** | | **(25,443,745)** | 54,556,856 |
| Cash and cash equivalents at beginning of the year | | **79,643,334** | 25,086,478 |
| **Cash and cash equivalents at end of the year** | | **54,199,589** | 79,643,334 |
| **Supplemental cash information** | | | |
| Lease finance income received | | **296,527,469** | 292,242,037 |
| Financing charges paid | | **136,413,453** | 127,890,454 |
| **Supplemental non-cash information:** | | | |
| Capital work in progress transferred to intangible assets and property and equipment | 13 | **2,629,704** | 930,084 |
| Investments in finance lease transferred to other real estate" account | | **4,133,790** | 1,750,000 |

The accompanying notes from (1) to (30) are an integral part of these financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2019**
(*Amounts in Saudi Riyals*)

## 1. THE COMPANY AND PRINCIPAL ACTIVITIES

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

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

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

## 2. BASIS OF PREPARATION

### *a) Statement of compliance*

The financial statements of the Company have been prepared:

- in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA"); and
- in compliance with the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

The financial statements of the Company as at and for the year ended 31 December 2018, were prepared in accordance with IFRS as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 "Income Taxes" and IFRIC 21 "Levies" so far as these relate to zakat and income tax.

On 17 July 2019, SAMA instructed the financing companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and the effect of this change are disclosed in note 3.A to the financial statements. The Company has adopted IFRS 16 "Leases" on 1 January 2019. The change in accounting policies due to this new standard and treatment of zakat and income tax are disclosed in the Note 3 to the financial statements.

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## 2. BASIS OF PREPARATION (CONTINUED)

### 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") and end of service benefits liability which is measured at present value of future obligations using the projected unit credit method.

The statement of financial position is stated broadly in order of liquidity.

### c) *Functional and presentation currency*

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

### d) *Critical accounting judgements, estimates and assumptions*

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

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

- Provision for expected credit loss on investments in finance lease, and insurance claims receivable on non-performing decease-case leases (Notes 5 and 9)
- Fair value measurement (Note 26)
- End of service benefits liability (Note 19)

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### A. Change in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018 except for the adoption of the following new standards and other amendments to the accounting treatment of zakat and income tax mentioned below. Except for the adoption of the new accounting treatment of zakat and income tax and IFRS 16, other changes had no material impact on the financial statements on the current period or prior periods and is expected to have an insignificant effect in future periods. The impact and disclosures pertaining to adoption of IFRS 16 has been illustrated in this note 3(A) and note 12 to the financial statements.

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### A. Change in accounting policies (continued)

Effective from 1 January 2019, the Company has adopted one new accounting standard and an amendment to the accounting treatment for zakat and income tax, the impact of these is explained below:

***IFRS 16 Leases***

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

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

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

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

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

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

IFRS 16 transition disclosures also require the Company to present the reconciliation of the off-balance sheet lease obligations as at 31 December 2018. However, all of the Company’s lease contracts expired on 31 December 2018 except for one lease contract with remaining 2 months lease term which had an immaterial impact. Hence, there had been no transition adjustment made as at 1 January 2019.

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

As mentioned in note 2(a) to the financial statements, the basis of preparation has been changed for the year ended 31 December 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognised in the statement of changes in equity as per SAMA circular no. 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA, the zakat and income tax shall be recognised in the statement of income. The Company has accounted for this change in the accounting for zakat and income tax retrospectively, and the effects of the above change are disclosed in note 17.

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Financial instruments

***Classification of financial assets***

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL. As at 31 December 2019 and 2018, the Company does not have Financial assets at FVTPL.

- **Financial assets at amortized cost**

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

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

- **Financial assets at FVOCI**

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

***Business model assessment***

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

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Financial instruments (continued)

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

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

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

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

***Classification of financial liabilities***

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

***Derecognition***

**i. Financial assets**

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

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

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

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Financial instruments (continued)

***Modification of financial assets and financial liabilities***

**i. Financial assets**

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

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

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

***Impairment***

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

- Investments in finance lease; and
- Insurance claims receivable on non-performing decease-case leases.

No impairment loss is recognized on equity investments.

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

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

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Financial instruments (continued)

**Restructured financial assets**

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and

- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition .This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

**Credit-impaired financial assets**

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

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

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

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

**Presentation of allowance for ECL in the statement of financial position**

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

**Write-off**

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Income / expense recognition

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

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

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

### D. Cash and cash equivalents

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

### E. Investments in finance lease

Investments in finance lease represents net investment in Ijarah leasing contracts which are receivable from customers on account of finance leases. Ijarah is an agreement whereby the Company, acting as a lessor, purchases an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

All leased properties are under the Company's name, except for those where the ownership has been transferred to Arab National Bank (a shareholder) in accordance with the terms of the facilities agreements for Tawarruq financing facilities (refer to Note 18), and for those where the ownership has been kept under the name of Kingdom Installment Company (a shareholder) as a custodian in accordance with the custodian agreement. The contract signed with customer represents an Ijarah contract with irrevocable promises to transfer the ownership, where the legal title of the asset will be passed to the lessee once all Ijarah instalments are settled.

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

***Recognition***

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

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### E. Service fees

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

### F. Application and evaluation fee income

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

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

### G. End of service benefits

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

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

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service cost are recognised in profit or loss on the earlier of:
- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs

Interest cost is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of income:
- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine-settlements
- Net interest expense or income

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### H. Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the company. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease.

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

| | *Rate* |
|---|---|
| Leasehold improvements | 10% |
| Motor vehicles | 25% |
| Furniture, fixture and office equipment | 10%-25% |
| Computers | 25%-33.3% |

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

### I. Other real estate

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

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

***Collateral valuation***

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral is primarily in the form of real estate. The Company's accounting policy for collateral assigned to it through its lending arrangements is in accordance with IFRS 9. Collateral, unless repossessed, is not recorded on the Company's statement of financial position.

However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis.

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### I. Other real estate (continued)

***Collateral repossessed***

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

### J. Intangible assets

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

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

Intangible assets comprise of computer software and their estimated useful life for the current and comparative years is 3-5 years. Amortization method and useful life is reviewed at least end of each reporting period.

### K. Impairment of non - financial assets

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

### L. Accounting for leases

**Before 1 January 2019, the Company followed the below accounting policy where the Company was the lessee:**

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

**Accounting policy applicable on and after 1 January 2019:**

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### L. Accounting for leases (continued)

**Right-of-use asset / lease liability**

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

**Right of use assets**

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

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

**Lease liability**

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

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

### M. Deferred origination fees

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

### N. Advance lease rental

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

### O. Accrued expenses and other liabilities

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

### P. Other provision

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

### Q. Proposed dividend and transfer between reserves

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### R. Accounting for zakat and income tax

**Income tax**

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

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

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

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

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

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

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

**Deferred tax**

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

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

Current and deferred tax is recognised in statement of income, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised.

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### R. Accounting for zakat and income tax (continued)

**Zakat**

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

### S. Transactions with related parties

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

### T. Foreign currency transactions

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

### U. Expenses

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

Sales and marketing expenses excluding compensation cost are those expenses that relates to sales and marketing representatives.

### V. Value Added Tax ("VAT")

The Company collects VAT from its customers for qualifying services provided, and make VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the GAZT representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Company and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

## 4. CASH AND CASH EQUIVALENTS

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

| | **2019** | 2018 |
|---|---|---|
| Cash in hand | **22,500** | 17,500 |
| Bank current accounts | **54,177,089** | 79,625,834 |
| | **54,199,589** | 79,643,334 |

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## 5. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprise of the following:

| | *Note* | **2019** | 2018 |
|---|---|---|---|
| Insurance claims receivable on decease-case leases | | **36,111,870** | 25,171,311 |
| VAT receivable | | **22,791,195** | 8,366,174 |
| Due from Real Estate Development Fund (REDF) | *5.1* | **9,354,696** | -- |
| Advance tax | | **3,783,371** | 3,460,872 |
| Prepaid financing facility fees (IFC) | | **1,409,800** | 1,723,096 |
| Legal claim | | **1,018,356** | 1,018,356 |
| Prepaid financing facility fees (GIB) | | **862,500** | 1,537,500 |
| SFLRC registration charges | | **718,200** | -- |
| Prepaid software maintenance | | **450,630** | 843,621 |
| Prepaid financing facility interest (IFC) | | **--** | 4,662,866 |
| Prepaid insurance | | **43,447** | 3,686,186 |
| Prepaid rent | | **--** | 561,922 |
| Employees' advances and receivables | | **130,818** | 144,199 |
| Others | | **691,846** | 43,000 |
| | | **77,366,729** | 51,219,103 |
| Allowance for provision for: | | | |
| - ECL on insurance claims receivable on non-performing decease-case leases | | **(12,098,311)** | (12,201,267) |
| - Legal claims | | **(1,494,089)** | (1,018,356) |
| | | **63,774,329** | 37,999,480 |

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

**5.1** The due from REDF balance represents the Company's claim from REDF. These are downpayments for the properties which the Company have paid for in advance on behalf of REDF and now await reimbursement.

## 6. ADVANCES TO PROPERTY OWNERS

This balance represents the amounts of certified cheques issued under the property owners' name, for the purchase of properties of the Company's Ijarah contracts (approved deals) and for which the transfer of title deeds, in the name of the Company, is in process. These certified cheques are submitted by official Company representatives directly at the Registration Office at the time of title deed transfer. Risk and reward of such Ijarah contracts are not transferred as at the date of statement of financial position.

## 7. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be done on the same terms, conditions and amounts as transactions between unrelated parties.

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## 7. RELATED PARTY TRANSACTIONS

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

| Name | Relationship |
|---|---|
| Arab National Bank (ANB) | Shareholder |
| Dar Al Arkan | Shareholder |
| International Financial Corporation (IFC) | Shareholder |
| Kingdom Instalment company | Shareholder |
| Afwaf Investment Company | Affiliate |
| ANB Metlife | Affiliate |

The significant related party transactions during the year are as follows:

| | **2019** | 2018 |
|---|---|---|
| Tawaruq financing charges (ANB) | **103,241,287** | 109,898,506 |
| Tawaruq financing charges (IFC) | **10,059,030** | 9,126,319 |
| Residential units purchased from (Dar Al Rakan) | **20,038,669** | 4,310,776 |
| Service fees, net (Note 22) | **8,782,622** | 10,156,303 |
| Deferred origination fees (ANB) (Note 10) | **108,864** | 1,119,091 |
| Rent charged by an affiliate | **2,179,941** | 1,882,090 |

The following related party balances are included in the statement of financial position as at 31 December:

| | **2019** | 2018 |
|---|---|---|
| Loan obtained from a shareholder (ANB) | **1,900,010,120** | 2,216,981,529 |
| Loan obtained from a shareholder (IFC) | **172,186,266** | 187,500,000 |
| Prepaid financing facility fees (IFC) | **1,409,800** | 1,723,096 |
| Takaful protection coverage (ANB Metlife) | **--** | 8,236,857 |
| Prepaid interest expense (IFC) | **--** | 4,662,866 |
| Deferred origination fees (ANB) (Note 10) | **25,791,599** | 29,810,236 |
| Due from related parties related to service fees (ANB) (Note 22) | **765,379** | 897,247 |

**Compensation for key management personnel**

The Company considers the chief executive officer and chief operating officer as key management personnel and their compensation is detailed below:

| | **2019** | 2018 |
|---|---|---|
| Salaries | **2,108,571** | 3,214,908 |
| End of service benefits | **175,714** | 272,902 |
| Other allowances | **799,825** | 960,485 |
| | **3,084,110** | 4,448,295 |

## 8. INVESTMENT

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

Pursuant to Article 18/1 of the financial leasing law, Saudi Financial Lease Contract Registry Company ("SFLRC") was established on 3/2/1439, corresponding to 23 October 2017, under CR No. 1010612415, and SAMA approval no. 381000124076 dated 23/12/1438, corresponding to 14 September 2017.

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## 8. INVESTMENT (CONTINUED)

This Company has been set up by SAMA as a means to further regulate the market and facilitate transfer of leases between suppliers of finance and counterparties. SIJIL has 700,000 shares of SR 10 each. These 700,000 shares have been divided between finance lease companies registered and operating in Saudi Arabia. On 17 December 2017, Saudi Home Loans Company purchased 89,285 shares at SR 10 each, amounting to SR 892,850.

In 2019, the SFLRC has started its operations and accordingly charged the Company registration charges amounting to SR 0.72 million.

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

## 9. INVESTMENTS IN FINANCE LEASE - NET

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

| | **2019** | 2018 |
|---|---|---|
| **Minimum lease payments** | | |
| Performing leases | **6,627,877,566** | 6,515,280,546 |
| Non-performing leases | **292,442,761** | 317,694,471 |
| **Investments in finance lease - gross** | **6,920,320,327** | 6,832,975,017 |
| Less: Unearned finance income | **(2,603,677,993)** | (2,575,750,005) |
| **Investments in finance lease before impairment** | **4,316,642,334** | 4,257,225,012 |
| Less: Allowance for expected credit losses | **(78,226,322)** | (66,899,663) |
| **Investments in finance lease – net** | **4,238,416,012** | 4,190,325,349 |
| **Less:** Current portion | **(272,351,588)** | (262,693,122) |
| **Less:** Accrued finance lease receivable | **(42,143,170)** | (40,098,952) |
| Non-current portion | **3,923,921,254** | 3,887,533,275 |

Investments represent net investment in finance lease. Total number of outstanding lease agreements as at 31 December 2019 is 6,909 (31 December 2018: 6,597).

The Company generates substantially all of its revenues from leasing real estate in the Kingdom of Saudi Arabia. Gross amounts due in relation to the finance leases are due from individual customers. Title deeds of the underlying properties are in the name of the Company, except for those where the ownership has been transferred to Arab National Bank (a shareholder) in accordance with the terms of the facility agreement for Tawaruq Financing facilities (refer to note 18), and for those where the ownership has been kept under the name of Kingdom Instalment Company (a shareholder) as a custodian in accordance with the custodian agreement.

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

| | **31 December 2019** |
|---|---|
| Closing loss allowance as at 31 December 2018 | **66,899,663** |
| Charge for the year, net | **11,326,659** |
| **Balance at the end of the year** | **78,226,322** |

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

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## 9. INVESTMENTS IN FINANCE LEASE – NET (CONTINUED)

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

| | **31 December 2019** | | | |
|---|---|---|---|---|
| | **12-month ECL** | **Life time ECL not credit impaired** | **Life time ECL credit impaired** | **Total** |
| Gross carrying amount | **3,680,819,462** | **438,006,927** | **197,815,945** | **4,316,642,334** |
| Allowance for expected credit losses | **(989,755)** | **(28,117,460)** | **(49,119,107)** | **(78,226,322)** |
| Net carrying amount | **3,679,829,707** | **409,889,467** | **148,696,838** | **4,238,416,012** |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | 12-month ECL | Life time ECL not credit impaired | Life time ECL credit impaired | Total |
| Gross carrying amount | 3,520,021,639 | 469,193,929 | 268,009,444 | 4,257,225,012 |
| Allowance for expected credit losses | (1,573,096) | (10,168,698) | (55,157,869) | (66,899,663) |
| Net carrying amount | 3,518,448,543 | 459,025,231 | 21,285,1575 | 4,190,325,349 |

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

9.3 Maturity profile of the lease payments is as follows:

| | **2019** | | | 2018 |
|---|---|---|---|---|
| **Year** | **Minimum lease payments** | **Unearned finance income** | **Investments in finance lease** | **Investments in finance lease** |
| Within one year | **610,449,589** | **295,954,831** | **314,494,758** | 302,792,074 |
| Year two | **555,864,394** | **275,303,636** | **280,560,759** | 270,292,349 |
| Year three | **542,657,587** | **254,189,614** | **288,467,973** | 277,119,582 |
| Year four | **525,005,173** | **232,791,305** | **292,213,868** | 282,973,398 |
| Year five and later | **4,686,343,584** | **1,545,438,607** | **3,140,904,976** | 3,124,047,609 |
| | **6,920,320,327** | **2,603,677,993** | **4,316,642,334** | 4,257,225,012 |

**Collateral**

The Company in the ordinary course of lending activities holds collateral as security to mitigate credit risk. These collaterals are primarily title deeds in the name of the Company, for properties that have been leased out to the portfolio of investments in finance lease. As at 31 December 2019, the carrying amount of gross non-performing leases amounted to SR 177.05 million (2018: SR 183.31 million) and the fair value of identifiable real estate collateral held against them amounted to SR 214.71 million (2018: SR 241.80 million). The Company has a policy to value every year, all real estate properties leased out, by involving approved appraisers

## 10. DEFERRED ORIGINATION FEES

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

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## 10. DEFERRED ORIGINATION FEES (CONTINUED)

| | **2019** | 2018 |
|---|---|---|
| Deferred origination fees | **25,791,599** | **29,810,236** |
| Less: Current portion | **(2,908,196)** | **(3,137,011)** |
| Non-current portion | **22,883,403** | **26,673,225** |

The movement in deferred origination fees is shown below:

| | **2019** | 2018 |
|---|---|---|
| At beginning of the year | **29,810,236** | **32,437,315** |
| Origination fees incurred and paid for the year | **108,863** | **1,119,091** |
| Origination charge for the year | **(4,127,500)** | **(3,746,170)** |
| At end of the year | **25,791,599** | **29,810,236** |

## 11. OTHER REAL ESTATE

The Company repossesses real estate assets against settlement of over-due long-term investments in finance lease as follows:

| | **2019** | 2018 |
|---|---|---|
| At beginning of the year | **2,829,685** | 1,079,685 |
| Repossession during the year | **4,133,790** | 1,750,000 |
| At end of the year | **6,963,475** | 2,829,685 |

## 12. RIGHT-OF-USE ASSET / LEASE LIABILITY

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

Details on the three contracts are as follows:

| **Lease liability** | **Riyadh** | **Dammam** | **Jeddah** | **Total** |
|---|---|---|---|---|
| **Undiscounted cash flows based on lease terms** | **6,241,972** | **1,115,730** | **2,500,000** | **9,857,702** |
| Lease liability, 1 January 2019 | 5,125,399 | -- | 2,164,738 | 7,290,137 |
| Additions during the period | 540,747 | 1,024,262 | -- | 1,565,009 |
| Payment of lease liability | (2,080,656) | (371,909) | (1,000,000) | (3,452,565) |
| Amortisation of discount | 283,306 | 47,204 | 196,886 | 527,396 |
| **Lease liability, 31 December 2019** | **3,868,796** | **699,557** | **1,361,624** | **5,929,977** |
| | | | | |
| **Right-of-use asset** | | | | |
| Right-of-use asset, 1 January 2019 | 5,125,399 | -- | 2,164,738 | 7,290,137 |
| Additions during the period | 540,747 | 1,024,262 | | 1,565,009 |
| Accumulated depreciation | (1,828,631) | (284,520) | (432,948) | (2,546,099) |
| **Right-of-use asset, 31 December 2019** | **3,837,515** | **739,742** | **1,731,790** | **6,309,047** |

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

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## 13. PROPERTY AND EQUIPMENT, NET

| 31 December 2019 | Leasehold improvements | Vehicles | Furniture, fixtures and office equipment | Computers | Work-in-process | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at beginning of the year | **5,369,647** | **495,001** | **5,776,840** | **8,109,001** | **402,651** | **20,153,140** |
| Additions | **232,050** | **--** | **257,628** | **739,145** | **448,555** | **1,677,378** |
| Balance at end of the year | **5,601,697** | **495,001** | **6,034,468** | **8,848,146** | **851,206** | **21,830,518** |
| **Accumulated depreciation** | | | | | | |
| Balance at beginning of the year | **3,608,472** | **372,856** | **4,893,018** | **7,213,531** | **--** | **16,087,877** |
| Charge for the year | **319,522** | **84,850** | **194,126** | **376,560** | **--** | **975,058** |
| Balance at end of the year | **3,927,994** | **457,706** | **5,087,144** | **7,590,091** | **--** | **17,062,935** |
| **Net book value** | **1,673,703** | **37,295** | **947,324** | **1,258,055** | **851,206** | **4,767,583** |

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

## 14. INTANGIBLE ASSETS

| **Cost** | **2019** | 2018 |
|---|---|---|
| Balance at beginning of the year | **8,973,012** | 8,350,889 |
| Additions | **1,400,881** | 622,123 |
| Balance at end of the year | **10,373,893** | 8,973,012 |
| **Accumulated amortisation** | | |
| Balance at beginning of the year | **(5,410,936)** | (3,721,288) |
| Charge for the year | **(1,805,621)** | (1,689,648) |
| Balance at end of year | **(7,216,557)** | (5,410,936) |
| **Net book value** | **3,157,336** | 3,562,076 |

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

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## 15. ACCOUNTS PAYABLE

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

As at 31 December 2019, the Company's accounts payable includes an amount due to MOH totalling to SAR 41.53 million (31 December 2018: 22.59). This represents purchase price of the properties where the Company has already entered into Ijarah finance lease contracts with customers while the title deeds are yet to be transferred in the name of the Company.

## 16. ACCRUED EXPENSES AND OTHER LIABILITIES

| | **2019** | 2018 |
|---|---|---|
| Employees' related expenses | **5,570,132** | 5,357,186 |
| Accrued insurance charges | **1,421,442** | -- |
| Accrued legal and consultation fees | **370,000** | 296,255 |
| Provision for maintenance on finance lease contracts | **424,800** | 404,279 |
| Accrued brokerage fees | **16,980** | 33,840 |
| Others | **803,917** | 415,909 |
| Total | **8,607,271** | 6,507,469 |

## 17. PROVISION FOR ZAKAT AND INCOME TAX

Zakat is a levy as defined by the GAZT in the Kingdom of Saudi Arabia on the Saudi shareholders. Income tax charge for the year has been calculated based on adjusted net income of the Company attributable to Non-Saudi shareholders at the rate of 20% per annum.

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

### Prior years zakat settlement

In February 2019, the Company received a settlement agreement from the GAZT to settle the outstanding assessments relating to zakat for the financial years from 2014 to 2017 and provides a settlement calculation method for financial year 2018. The Company has accepted this settlement agreement where an advance payment of SR 5.07 million (20% of the settlement amount) was paid in March 2019 while the remaining balance will be paid in 5 equal instalments due in December each year. The first instalment which was in December 2019 was paid.

Furthermore, the Company has received final settlement letter from GAZT dated 26 June 2019 to clear all outstanding assessments for the years from 2008 to 2013. The final assessment requires the Company to pay additional zakat of SR 12.8 million. The Company accepted the settlement and paid the amount to GAZT.

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## 17. PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED

**2019 zakat new regulations**

The GAZT has issued the implementing rules and regulations under Ministerial Decree No. 2216 dated 7 Rajab 1440H (corresponding to 14 March 2019) in respect to the calculation of zakat of financing activities which was applied by the Company effective 1 January 2019. Based on this, the Company has recognised zakat expense amounting to SR 6.95 million for the year ended 31 December 2019.

The change in the accounting treatment for zakat and income tax (as explained in note 3) has the following impact on the line items of the statements of income, statement of financial position and changes in shareholders' equity:

For the year ended 31 December 2018:

| Financial statement impacted | Account | As reported, for the year ended 31 December 2018 | Effect of restatement | As restated, for the year ended 31 December 2018: |
|---|---|---|---|---|
| Statement of changes in equity | Provision for zakat and income tax (retained earnings) | 36,507,867 | (36,507,867) | -- |
| Statement of income | Zakat and income tax expense | -- | (35,052,472) | (35,052,472) |

As at 31 December 2018:

| Financial statement impacted | Account | As reported, as at 31 December 2018 | Effect of restatement | As restated, as at 31 December 2018: |
|---|---|---|---|---|
| Statement of financial position | Deferred tax assets | - | 4,068,676 | 4,068,676 |
| Statement of financial position | Retained earnings | 348,881,147 | 4,068,676 | 352,949,823 |

As at 1 January 2018:

| Financial statement impacted | Account | As reported, as at 1 January 2018 | Effect of restatement | As reported, as at 1 January 2018 |
|---|---|---|---|---|
| Statement of financial position | Deferred tax assets | - | 2,613,281 | 2,613,281 |
| Statement of financial position | Retained earnings | 305,676,175 | 2,613,281 | 308,289,456 |

The change has had no impact on the statement of cash flows for the year ended 31 December 2018.

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## 17. PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED

On the basis of materiality, the deferred tax arising from the adjustment upon first time adoption of IFRS 9 (i.e. expected credit losses) was recognised by the Company in profit or loss for the year ended 31 December 2019.

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

| | **2019** | 2018 |
|---|---|---|
| Balance, beginning of the year | **36,413,896** | 6,655,591 |
| Provision for zakat for the current year | **6,945,907** | 5,986,633 |
| Provision for zakat for the previous years | **12,831,866** | 25,366,827 |
| Provision for income tax for the current year | **4,781,398** | 5,060,436 |
| Income tax adjustment | **--** | 93,971 |
| Payment during the year | **(32,995,050)** | (6,749,562) |
| Balance, end of the year | **27,978,017** | 36,413,896 |

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

| **Income tax** | **2019** | 2018 |
|---|---|---|
| Taxable net income | **93,848,752** | 110,489,813 |
| Non-Saudi portion of the adjusted net income | **19,708,238** | 23,202,860 |
| Finance charges in excess of allowed amount | **4,541,956** | 2,227,049 |
| Non-Saudi share of utilized provisions previously added back to the taxable income | **(343,204)** | (127,728) |
| | **23,906,990** | 25,302,181 |
| Income tax for the year (20%) | **4,781,398** | 5,060,436 |

**Deferred income tax**

| | **31 December 2019** | 31 December 2018 (Restated) |
|---|---|---|
| Balance at the beginning of the year | 4,068,676 | 2,613,281 |
| Movement during the period | 495,047 | 1,455,395 |
| Balance at end of the year | **4,563,723** | 4,068,676 |

The Company's deferred tax assets arise primarily from employees' end of service benefits liability, allowance for expected credit losses on investment in finance lease and depreciation of property and equipment.

| **2019** | **Beginning balance** | **Recognised in the statement of income** | **Ending balance** |
|---|---|---|---|
| **Deductible temporary difference** | | | |
| Depreciation of property and equipment | **342,873** | **(29,366)** | **313,507** |
| Provision for end of service benefits liability | **360,793** | **33,037** | **393,830** |
| Provision for expected credit losses | **3,365,010** | **491,376** | **3,856,386** |
| **Balance at end of the year** | **4,068,676** | **495,047** | **4,563,723** |

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## 17. PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED)

| **2018** | **Beginning balance** | **Recognised in the statement of income** | **Ending balance** |
|---|---|---|---|
| **Deductible temporary difference** | | | |
| Depreciation of property and equipment | 318,399 | 24,474 | 342,873 |
| Provision for end of service benefits liability | 324,580 | 36,213 | 360,793 |
| Provision for credit losses | 1,970,302 | 1,394,708 | 3,365,010 |
| **Balance at end of the period / year** | 2,613,281 | 1,455,395 | 4,068,676 |

## 18. TAWARRUQ FINANCING FACILITIES

| | **2019** | 2018 |
|---|---|---|
| Current portion of facilities | **421,615,415** | 643,677,938 |
| Non-current portion of facilities | **2,372,498,640** | 2,173,082,129 |
| Total excluding financial charges | **2,794,114,055** | 2,816,760,067 |
| Accrued Tawaruq financing charges | **7,808,558** | 7,478,094 |
| Total including financial charges | **2,801,922,613** | 2,824,238,161 |

This item represents the Tawarruq financing facilities from Arab National Bank (shareholder) ("ANB"), International Finance Corporation (Shareholder) ("IFC"), Gulf International Bank ("GIB") and National commercial Bank ("NCB") to finance the investments in finance lease.

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 6 months SAIBOR. Facility repayment schedule is based on equal semi-annual or quarter payment.

The movements during the year ended 31 December are as follows:

| | **2019** | 2018 |
|---|---|---|
| Balance as at beginning of the year | **2,824,238,161** | 2,824,238,161 |
| Borrowings made during the year | **357,677,842** | 275,000,000 |
| Repayment during the year | **(380,323,854)** | (282,671,806) |
| Finance charge accrued during the year | **137,200,554** | 131,699,801 |
| Finance charge repayments during the year | **(136,870,090)** | (127,890,454) |
| Balance as at end of the year | **2,801,922,613** | 2,824,238,161 |

The outstanding balance for these facilities is as follows:

| | **2019** | 2018 |
|---|---|---|
| Arab National Bank | **1,900,010,120** | 2,216,981,529 |
| Gulf International Bank | **401,395,147** | 419,756,632 |
| International Finance Corporation | **172,186,266** | 187,500,000 |
| National Commercial Bank | **328,331,080** | -- |
| Total facility balance | **2,801,922,613** | 2,824,238,161 |

The finance charge related to these facilities is as follows:

| | **2019** | 2018 |
|---|---|---|
| ANB Tawarruq Facility | **103,241,287** | 109,898,506 |
| GIB Tawarruq Facility | **20,761,994** | 12,674,976 |
| IFC Tawarruq Facility | **10,059,030** | 9,126,319 |
| NCB Tawarruq Facility | **3,138,243** | -- |
| Total Finance Charge | **137,200,554** | 131,699,801 |

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## 18. TAWARRUQ FINANCING FACILITIES (CONTINUED)

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

| Maturity date | | Facility amount | Outstanding balance | Current portion | Non-current portion |
|---|---|---|---|---|---|
| June 2021 | ANB | 500,000,000 | 233,663,460 | 10,893,174 | 222,770,286 |
| March 2022 | ANB | 500,000,000 | 54,925,629 | 13,637,955 | 41,287,675 |
| June 2022 | ANB | 650,000,000 | 427,430,815 | 19,042,950 | 408,387,865 |
| October 2023 | ANB | 500,000,000 | 386,355,209 | 18,684,660 | 367,670,548 |
| October 2023 | ANB | 150,000,000 | 115,203,473 | 5,570,687 | 109,632,786 |
| August 2020 | ANB | 206,696,969 | 170,545,023 | 170,545,023 | -- |
| January 2021 | ANB | 350,000,000 | 306,285,940 | 17,535,960 | 288,749,980 |
| July 2023 | ANB | 400,000,000 | 205,600,571 | 20,024,139 | 185,576,432 |
| | | **3,256,696,969** | **1,900,010,120** | **275,934,548** | **1,624,075,572** |
| May 2020 | GIB | 300,000,000 | 257,376,216 | 93,376,216 | 164,000,000 |
| July 2023 | GIB | 150,000,000 | 144,018,931 | 6,018,931 | 138,000,000 |
| | | **450,000,000** | **401,395,147** | **99,395,147** | **302,000,000** |
| September 2034 | NCB | 282,074,992 | 277,553,526 | 18,984,784 | 258,568,742 |
| November 2034 | NCB | 50,602,850 | 50,777,554 | 3,548,228 | 47,229,326 |
| | | **332,677,842** | **328,331,080** | **22,533,012** | **305,798,068** |
| June 2025 | IFC | **187,500,000** | **172,186,266** | **31,561,266** | **140,625,000** |
| **Total** | | **4,226,874,811** | **2,801,922,613** | **429,423,973** | **2,372,498,640** |

Tawarruq financing facilities are scheduled for repayment as follows:

| Year | 2019 | 2018 |
|---|---|---|
| 2019 | **--** | 651,156,032 |
| 2020 | **429,423,974** | 378,684,891 |
| 2021 | **808,243,838** | 765,313,314 |
| 2022 | **517,313,016** | 824,958,924 |
| 2023 | **760,804,289** | 157,250,000 |
| 2024 | **53,428,524** | 31,250,000 |
| 2025 | **37,803,524** | 15,625,000 |
| 2026 - 2034 | **194,905,448** | -- |
| | **2,801,922,613** | 2,824,238,161 |

## 19. END OF SERVICE BENEFITS

The Company operates an 'End of service benefit plan' for its staffs based on the prevailing Saudi Labour Laws. As at 31 December 2019, actuarial valuation was carried out by the Company which estimated the plan liability to be SR 9.38 million.

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

| | 2019 | 2018 |
|---|---|---|
| Defined benefit obligation at the beginning of the year | **8,590,316** | 7,728,097 |
| Current service cost | **1,465,902** | 1,379,289 |
| Interest cost on defined benefit obligation | **413,212** | 258,741 |
| Benefits paid/payable to outgoing members during the year | **(1,203,494)** | (368,841) |
| Actuarial (gain) / loss on obligation | **110,970** | (406,970) |
| Defined benefit obligation at the end of the year | **9,376,906** | 8,590,316 |

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## 19. END OF SERVICE BENEFITS (CONTINUED)

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

| | **2019** | 2018 |
|---|---|---|
| Current service cost | **1,465,902** | 1,379,289 |
| Interest cost on defined benefit obligation | **413,212** | 258,741 |
| Cost recognised in the statement of income | **1,879,114** | 1,638,030 |
| Actuarial losses / (gain) on obligation recognised in OCI | **110,970** | (406,970) |
| Total defined benefit cost recognised during the year | **1,990,084** | 1,231,060 |

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

| | **2019** | 2018 |
|---|---|---|
| Gain / (loss) from change in financial assumptions | **327,991** | 375,700 |
| Loss due to change in demographic assumptions | **(840)** | -- |
| (Loss) / gain from change in experience assumptions | **(216,181)** | 31,270 |
| Actuarial re-measurement of the defined benefit obligation | **110,970** | (406,970) |

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

| | **2019** | 2018 |
|---|---|---|
| Discount rate | **2.95%** | 4.55% |
| Expected rate of salary increase | **2.95%** | 5.0% |
| Normal retirement age | **60** | 60 |

During 2019, the discount rate has been reduced to SR 2.95% to reflect the current market yields of sovereign bonds considering the average duration of the defined benefit obligation of 10 years. Furthermore, management has reduced the expected salary increase rate to SR 2.95% based on the recent available trend on salary increases of the Company's employees.

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

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

| | **2019** | 2018 |
|---|---|---|
| Weighted average duration of the defined benefit obligation | **10.00** | 9.96 |
| Distribution of timing of benefit payments | | |
| Year 1 | **514,065** | 472,332 |
| Year 2 | **1,048,836** | 542,942 |
| Year 3 | **669,863** | 1,080,285 |
| Year 4 | **740,403** | 685,393 |
| Year 5 | **799,588** | 986,323 |
| Year 6-10 | **7,298,055** | 7,749,453 |

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December 2019 and 2018 to the discount rate and the expected rate of salary increase while other assumptions remain constant.

| | **2019** | 2018 |
|---|---|---|
| Discount rate, +0.5% | **(469,679)** | (428,735) |
| Discount Rate, -0.5% | **469,679** | 428,735 |
| Expected rate of salary increase, +0.5% | **364,120** | 298,125 |
| Expected rate of salary increase, -0.5% | **(364,120)** | (298,125) |

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## 20. SHARE CAPITAL

The authorised, issued and fully paid share capital of the company consists of 100 million shares of SAR 10 each (2018: 100 million shares of SAR 10 each).

The ownership of the company's share capital is as follows:

| | No. of shares | Share capital |
|---|---|---|
| Arab National Bank | 40,000,000 | 400,000,000 |
| Dar Al Arkan Real Estate Development Company | 15,000,000 | 150,000,000 |
| Kingdom Instalment Company | 9,000,000 | 90,000,000 |
| Youssef bin Abdullah Al Shalash | 8,000,000 | 80,000,000 |
| Tareq Mohammad Al Jarallah | 6,000,000 | 60,000,000 |
| Hathlool Bin Saleh Al Hathlool | 6,000,000 | 60,000,000 |
| International Finance Corporation | 5,000,000 | 50,000,000 |
| Abdulatif Bin Abdullah Al Shalash | 5,000,000 | 50,000,000 |
| Inma Almadaen Company | 4,000,000 | 40,000,000 |
| Daem Al Khaleej Company | 2,000,000 | 20,000,000 |
| **Total** | **100,000,000** | **1,000,000,000** |

## 21. STATUTORY RESERVES

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

## 22. SERVICE FEE, NET

In 2014, the Company entered into an Asset Sale Agreement with Arab National Bank ("ANB") to sell investments in finance lease with a carrying value of SR 706.5 million represented by 1,404 deals. This comprised of three transactions executed on March 27, 2014, May 22, 2014, and July 20, 2014 ("sold portfolio") respectively.

As part of this Asset Sale Agreement, ANB and the Company also signed an agreement in relation to this sold portfolio to be recognised, based on an agreed profit-sharing schedule built upon monthly instalments from this sold portfolio to compensate for the administrative services provided by the Company which is based on market rate. ANB has no recourse to the Company in relation to any default/loss on the outstanding balance of the investments in finance lease and related insurance claims receivable, if any. Thus, all substantial risks and rewards associated with the sold portfolio were transferred to ANB at the time of sale in 2014 hence derecognized by the Company.

Fees earned from sold portfolio during the period ended 31 December 2019 is SR 8.78 million (SR 10.16 million during the period ended 31 December 2018).

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## 23. GENERAL AND ADMINISTRATIVE EXPENSES

| | *Notes* | **2019** | 2018 |
|---|---|---|---|
| Employees' salaries and other benefits | | **40,360,818** | 36,377,403 |
| Consultation fees | | **2,833,910** | 3,203,521 |
| Depreciation and amortisation | *12,13, 14* | **5,326,786** | 2,778,296 |
| Software support charges | | **1,632,094** | 1,137,781 |
| Rent | | **--** | 2,754,063 |
| Telecommunication expenses | | **693,216** | 780,782 |
| Travel expenses | | **768,906** | 666,943 |
| Bank charges and other commission | | **589,902** | 484,042 |
| VAT expense | | **425,799** | 460,896 |
| Repairs and maintenance | | **343,739** | 402,644 |
| Recruitment related expenses | | **227,430** | 351,910 |
| Printing and stationery | | **136,129** | 179,029 |
| Withholding tax | | **28,520** | 58,568 |
| Others | | **2,974,030** | 1,056,417 |
| | | **56,341,279** | 50,692,295 |

Other expense mainly include provision for legal claims, subscription expenses and various expenses.

## 24. SELLING AND MARKETING EXPENSES

| | **2019** | 2018 |
|---|---|---|
| Insurance expenses | **13,243,357** | 13,725,755 |
| Origination expenses | **4,127,500** | 3,746,170 |
| Sales, collection & title commission | **4,376,422** | 2,793,278 |
| Marketing expenses | **3,626,879** | 2,564,798 |
| Evaluation fees | **2,282,185** | 1,989,840 |
| Others | **221,388** | 203,625 |
| | **27,877,731** | 25,023,466 |

## 25. FINANCIAL RISK MANAGEMENT

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

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

### Credit risk

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

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The Company seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. Management monitors the market value of collateral obtained during its review of the adequacy of the impairment allowance for credit losses. The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

### i. Credit quality analysis

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

| | 31 December 2019 | | | |
|---|---|---|---|---|
| **Investments in finance lease** | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | **Total** |
| Gross carrying amounts | 3,680,819,462 | 438,006,927 | 197,815,945 | **4,316,642,334** |
| ECL | (989,755) | (28,117,460) | (49,119,107) | **(78,226,322)** |
| Net carrying amount | 3,679,829,707 | 409,889,467 | 148,696,838 | **4,238,416,012** |

| | 31 December 2019 | | | |
|---|---|---|---|---|
| **Insurance claims receivable on non-performing decease-case leases** | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | **Total** |
| Gross carrying amounts | -- | -- | 36,111,870 | **36,111,870** |
| ECL | -- | -- | (12,098,311) | **(12,098,311)** |
| Net carrying amount | -- | -- | 24,013,559 | **24,013,559** |

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

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

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

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

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

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

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

### ii. Generating the term structure of PD

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

### iii. Determining whether credit risk has increased significantly

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

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

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

### iv) Modified financial assets

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

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

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

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

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

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

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

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

### v) Definition of ‘Default’

The Company considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to Company in full; or
- the borrower is past due more than 90 days on any material credit obligation to the Company.

In assessing whether a borrower is in default the Company considers indicators that are:
- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Company;

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

### vi) Incorporation of forward-looking information

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

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

The Company has identified and documented key drivers of credit risk and credit losses for its portfolio and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. Listed below are the key independent variables selected on the basis of correlation used as at 31 December 2019:

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

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

### vii) Measurement of ECL

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

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

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

associated PD. Furthermore, the PD term structure is estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD based on the history of recovery rates of claims against defaulted counterparties. LGD estimation considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset. Due to sparse historical defaults, the quantitative LGD estimates are adjusted based on expert judgement overlay to arrive at the 23% final haircut.

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

**SAUDI HOME LOANS COMPANY**
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**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2019**
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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

### c. Loss allowance

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

| | | Lifetime ECL as at 2019 | | |
|---|---|---|---|---|
| **Investments in finance lease before impairment** | **12 Month ECL** | **Not credit impaired** | **Credit impaired** | **Total** |
| Opening balance at 1 January | 3,520,021,639 | 469,193,929 | 268,009,444 | 4,257,225,012 |
| Transfer to 12 Month ECL | 200,830,212 | (178,401,887) | (22,428,325) | -- |
| Transfer to Lifetime ECL(not credit impaired) | (146,189,110) | 212,512,015 | (66,322,905) | -- |
| Transfer to Lifetime ECL (credit impaired) | (16,386,581) | (23,595,303) | 39,981,884 | -- |
| Net change for the period | 122,543,302 | (41,701,827) | (21,424,153) | 59,417,322 |
| **Closing balance** | **3,680,819,462** | **438,006,927** | **197,815,945** | **4,316,642,334** |

| | | Lifetime ECL as at 2019 | | |
|---|---|---|---|---|
| **Loss allowance** | **12 Month ECL** | **Not credit impaired** | **Credit impaired** | **Total** |
| Opening balance at 1 January | 1,573,096 | 10,168,698 | 55,157,869 | 66,899,663 |
| Transfer to 12 Month ECL | 88,664 | (81,027) | (7,637) | -- |
| Transfer to Lifetime ECL (not credit impaired) | (64,932) | 3,581,993 | (3,517,061) | -- |
| Transfer to Lifetime ECL (credit impaired) | (8,076) | (561,526) | 569,602 | -- |
| Net change for the period | (598,997) | 15,009,322 | (3,083,666) | 11,326,659 |
| **Closing balance** | **989,755** | **28,117,460** | **49,119,107** | **78,226,322** |

| | | Lifetime ECL as at 2019 | | |
|---|---|---|---|---|
| **Insurance claims receivable** | **12 Month ECL** | **Not credit impaired** | **Credit impaired** | **Total** |
| Opening balance at 1 January | 8,902,954 | -- | 16,268,357 | 25,171,311 |
| Net change for the period | 11,110,955 | -- | (170,396) | 10,940,559 |
| **Closing balance** | **20,013,909** | -- | **16,097,961** | **36,111,870** |

| | | Lifetime ECL as at 2019 | | |
|---|---|---|---|---|
| **Loss allowance** | **12 Month ECL** | **Not credit impaired** | **Credit impaired** | **Total** |
| Opening balance at 1 January | -- | -- | 12,201,267 | 12,201,267 |
| Net change for the period | -- | -- | (102,956) | (102,956) |
| **Closing balance** | -- | -- | **12,098,311** | **12,098,311** |

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2019**
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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

| Investments in finance lease before impairment | 12 Month ECL | Lifetime ECL as at 2018 Not credit Impaired | Lifetime ECL as at 2018 Credit impaired | Total |
|---|---|---|---|---|
| Opening balance at 1 January | 3,645,864,984 | 419,471,067 | 128,599,988 | 4,193,936,039 |
| Transfer to 12 Month ECL | 85,431,008 | (77,823,790) | (7,607,218) | -- |
| Transfer to Lifetime ECL (not credit impaired) | (253,260,010) | 263,980,907 | (10,720,897) | -- |
| Transfer to Lifetime ECL (credit impaired) | (71,096,580) | (97,418,636) | 168,515,216 | -- |
| Net change for the period | 113,082,237 | (39,015,619) | (10,777,645) | 63,288,973 |
| Closing balance | 3,520,021,639 | 469,193,929 | 268,009,444 | 4,257,225,012 |

| Loss allowance | 12 Month ECL | Lifetime ECL as at 2018 Not credit impaired | Lifetime ECL as at 2018 Credit impaired | Total |
|---|---|---|---|---|
| Opening balance at 1 January | 1,585,378 | 10,343,110 | 23,782,162 | 35,710,650 |
| Transfer to 12 Month ECL | 39,814 | (36,652) | (3,162) | -- |
| Transfer to Lifetime ECL (not credit impaired) | (99,922) | 297,686 | (197,764) | -- |
| Transfer to Lifetime ECL (credit impaired) | (26,877) | (2,234,713) | 2,261,590 | -- |
| Net change for the period | 74,703 | 1,799,267 | 29,315,043 | 31,189,013 |
| Closing balance | 1,573,096 | 10,168,698 | 55,157,869 | 66,899,663 |

| Insurance claims receivable | 12 Month ECL | Lifetime ECL as at 2018 Not credit impaired | Lifetime ECL as at 2018 Credit impaired | Total |
|---|---|---|---|---|
| Opening balance at 1 January | 7,041,966 | -- | 15,311,114 | 22,353,080 |
| Net change for the period | 1,860,988 | -- | 957,243 | 2,818,231 |
| Closing balance | 8,902,954 | -- | 16,268,357 | 25,171,311 |

| Loss allowance | 12 Month ECL | Lifetime ECL as at 2018 Not credit impaired | Lifetime ECL as at 2018 Credit impaired | Total |
|---|---|---|---|---|
| Opening balance at 1 January | -- | -- | 11,201,315 | 11,201,315 |
| Net change for the period | -- | -- | 999,952 | 999,952 |
| Closing balance | -- | -- | 12,201,267 | 12,201,267 |

### d. Collateral

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

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

## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

The amount of collateral held as security for investments in finance lease that are credit-impaired as at 31 December 2019 are as follows:

| **Loan to Value (SAR 000)** | **2019** | 2018 |
|---|---|---|
| Less than 50% | **15,830** | 55,755 |
| 51-70% | **82,358** | 58,924 |
| More than 70% | **116,523** | 127,118 |
| Total | **214,711** | 241,797 |

### Liquidity risk

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

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

| ***2019*** | **No contractual maturity** | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and bank balances | **54,199,589** | **--** | **--** | **--** | **--** | **54,199,589** |
| Invest. in finance lease (gross) | **--** | **143,678,811** | **421,115,538** | **2,124,436,183** | **4,231,089,795** | **6,920,320,327** |
| Prepaid expenses and other assets | **--** | **15,592,244** | **18,319,328** | **450,000** | **--** | **34,361,572** |
| Advances to property owners | **--** | **2,392,568** | **--** | **--** | **--** | **2,392,568** |
| Due from related parties | **--** | **765,379** | **--** | **--** | **--** | **765,379** |
| **Total assets** | **54,199,589** | **162,429,002** | **439,434,866** | **2,124,886,183** | **4,231,089,795** | **7,012,039,435** |

| ***2019*** | **No contractual maturity** | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Tawarruq financing facilities | **--** | **48,044,745** | **381,379,228** | **2,139,789,668** | **232,708,972** | **2,801,922,613** |
| Accounts payable | **--** | **23,920,326** | **24,339,788** | **2,332,963** | **--** | **50,593,077** |
| Advances received from customers | **--** | **7,496,185** | **--** | **--** | **--** | **7,496,185** |
| Acc. expenses and other liabilities | **--** | **8,607,271** | **--** | **--** | **--** | **8,607,271** |
| **Total liabilities** | **--** | **88,068,527** | **405,719,016** | **2,142,122,631** | **232,708,972** | **2,868,619,146** |
| **Net** | **54,199,589** | **74,360,475** | **33,715,850** | **-17,236,448** | **3,998,380,823** | **4,143,420,289** |

| ***2018*** | **No contractual maturity** | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and bank balances | 79,643,334 | -- | -- | -- | -- | 79,643,334 |
| Invest. in finance lease (gross) | -- | 144,603,510 | 435,784,083 | 2,164,305,405 | 4,088,282,019 | 6,832,975,017 |
| Prepaid expenses and other assets | -- | 3,483,360 | 10,305,882 | 862,500 | | 14,651,742 |
| Advances to property owners | -- | 5,911,286 | -- | -- | -- | 5,911,286 |
| Due from related parties | -- | 897,247 | -- | -- | -- | 897,247 |
| **Total assets** | 79,643,334 | 154,895,403 | 446,089,965 | 2,165,167,905 | 4,088,282,019 | 6,934,078,626 |

| ***2018*** | **No contractual maturity** | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Tawarruq financing facilities | -- | 42,169,650 | 601,508,288 | 2,157,457,130 | 23,103,093 | 2,824,238,161 |
| Accounts payable | -- | 8,346,412 | 22,591,489 | -- | -- | 30,937,901 |
| Advances received from customers | -- | 7,778,549 | -- | -- | -- | 7,778,549 |
| Acc. expenses and other liabilities | -- | 6,507,469 | -- | -- | -- | 6,507,469 |
| **Total liabilities** | -- | 64,802,080 | 624,099,777 | 2,157,457,130 | 23,103,093 | 2,869,462,080 |
| **Net** | 79,643,334 | 90,093,323 | (178,009,812) | 7,710,775 | 4,065,178,926 | 4,064,616,546 |

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2019**
(*Amounts in Saudi Riyals*)

## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

| | | | Sensitivity analysis | | |
|---|---|---|---|---|---|
| | Increase/ decrease in basis points | Sensitivity of finance charges | 12 months or less | More than 12 months | Total |
| Tawarruq Financing Facilities | +10 | 8,029,353 | 2,243,110 | 5,786,243 | 8,029,353 |
| | -10 | (8,029,353) | (2,243,110) | (5,786,243) | (8,029,353) |

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

## 26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The principal or the most advantageous market is accessible by the Company. Financial instruments comprise of Ijarah receivables and investments.

***Fair value hierarchy***

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

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

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

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

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance leases. The fair value of net investment in finance lease is determined using discounted cash flow technique using credit adjusted SIBOR. The expected rates are determined based on the risk profile of lease receivables and current commission rates.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
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(*Amounts in Saudi Riyals*)

## 26. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

| | | **31 December 2019** | | | |
|---|---|---|---|---|---|
| | **Carrying Value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Net investments in finance leases | **4,238,416,012** | **--** | **--** | **4,233,224,682** | **4,233,224,682** |
| Investment | **892,850** | **--** | **--** | **892,850** | **892,850** |
| Total | | **--** | **--** | **4,234,117,532** | **4,234,117,532** |

| | | 31 December 2018 | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
| Net investments in finance leases | 4,190,325,349 | -- | -- | 4,185,195,879 | 4,185,195,879 |
| Investment | 892,850 | -- | -- | 892,850 | 892,850 |
| Total | | -- | -- | 4,186,088,729 | 4,186,088,729 |

## 27. CAPITAL MANAGEMENT

The Company manages and controls its capital structure and liquidity needs in order to safeguard the Company's ability to meet its future obligations and growing plans and continue as a going concern. The Company monitors the adequacy of its capital using below measures:

| | **2019** | 2018 (Restated) |
|---|---|---|
| | **Total capital ratio %** | Total capital ratio % |
| Capital ratio | **22.80** | 23.83 |

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

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

## 28. COMMITMENT AND CONTINGENCIES

The Company faces during its normal activity some lawsuits and other claims related to the nature of its activity, however, significant claims are not expected to result from the outstanding lawsuits as at the financial statements date.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2019**
(*Amounts in Saudi Riyals*)

## 29. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Company has chosen not to early adopt the following new standards and amendments to IFRS which have been issued but not yet effective for the Company's accounting years beginning on 1 January 2019.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of Business (Amendments to IFRS 3)
- Definition of Material (Amendmen ts to IAS 1 and IAS 8)
- Sale of Contribution of Assets between an Investor and its associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Insurance contracts (IFRS 17)

The Company does not anticipate that these will have a significant impact on the Company's financial statements.

## 30. BOARD OF DIRECTORS APPROVAL

These financial statements were approved by the Board of Directors on 6 Rajab 1441H corresponding to 1 March 2019.

## 19-3 Financial Statements For the year ended 31 December 2020

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**FINANCIAL STATEMENTS**
**For the year ended 31 December 2020**
Together with the
**INDEPENDENT AUDITOR'S REPORT**

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**For the year ended 31 December 2020**

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KPMG

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# Independent auditor's report

## To the shareholders of Saudi Home Loans Company

### Opinion

We have audited the financial statements of Saudi Home Loans Company ("the Company"), which comprise the statement of financial position as at 31 December 2020, the statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

### Basis for opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the Regulations for Companies, and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### Auditor's responsibilities for the audit of the financial statements

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

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# Independent auditor's report

## To the shareholders of Saudi Home Loans Company (continued)

### Auditor's responsibilities for the audit of the financial statements (continued)

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

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

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

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

**Dr. Abdullah Hamad Al Fozan**
License no. 348

20 Rajab 1442H
Corresponding to: 4 March 2021

كي . بي . ام . جي الفوزان وشركاه
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س.ت.م رقم ٤٦
Certified Public Accountants
KPMG Al Fozan & Partners

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF FINANCIAL POSITION**
As at 31 December 2020
*(Amounts in Saudi Riyals)*

| | Note | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 4 | 142,327,982 | 54,199,589 |
| Prepaid expenses and other assets, net | 5 | 67,771,291 | 64,263,400 |
| Advances to property owners | 6 | 6,773,991 | 2,392,568 |
| Due from related parties | 7 | 633,377 | 765,379 |
| Investment | 8 | 892,850 | 892,850 |
| Investments in finance lease, net | 9 | 4,199,138,508 | 4,238,416,012 |
| Deferred origination fees | 10 | 22,027,601 | 25,791,599 |
| Other real estate | 11 | 8,656,926 | 6,963,475 |
| Right-of-use asset | 12 | 3,805,573 | 6,309,047 |
| Property and equipment, net | 13 | 5,272,141 | 4,767,583 |
| Deferred tax assets | 18 | 4,837,338 | 4,563,723 |
| Intangible assets, net | 14 | 2,499,923 | 3,157,336 |
| **Total assets** | | 4,464,637,501 | 4,412,482,561 |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Accounts payable | 16 | 8,106,378 | 50,593,077 |
| Accrued expenses and other liabilities | 17 | 9,325,716 | 9,096,342 |
| Advance lease rentals | | 4,396,874 | 7,496,185 |
| Lease liability | 12 | 3,841,748 | 5,929,977 |
| Provision for zakat and income tax | 18 | 24,644,795 | 27,978,017 |
| Tawarruq financing facilities | 19 | 2,819,883,777 | 2,801,922,613 |
| End of service benefits liability | 20 | 8,371,800 | 9,376,906 |
| **Total liabilities** | | 2,878,571,088 | 2,912,393,117 |
| **Equity** | | | |
| Share capital | 21 | 1,000,000,000 | 1,000,000,000 |
| Statutory reserve | 22 | 106,160,070 | 97,648,519 |
| Other reserves | | 1,157,460 | 296,000 |
| Retained earnings | | 478,748,883 | 402,144,925 |
| **Total equity** | | 1,586,066,413 | 1,500,089,444 |
| **Total liabilities and equity** | | 4,464,637,501 | 4,412,482,561 |

The accompanying notes from (1) to (31) are an integral part of these financial statements.

These financial statements were approved by the Board of Directors of the Company on 25 February 2021 and have been signed on its behalf by the following:

**Chief Executive Officer** **Chief Financial Officer**

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF INCOME**
**For the year ended 31 December 2020**
*(Amounts in Saudi Riyals)*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| Lease finance income | | **290,114,950** | 298,571,687 |
| Service fees, net | *15* | **7,298,316** | 8,782,622 |
| Application and evaluation fee income | | **5,273,681** | 4,014,306 |
| Other income | | **655,474** | -- |
| **Total operating income** | | **303,342,421** | 311,368,615 |
| Finance charges | *19* | **93,167,534** | 137,200,554 |
| General and administrative expenses | *23* | **93,687,523** | 71,862,721 |
| Provision for expected credit losses | *5, 9* | **7,500,431** | 11,223,703 |
| Selling and marketing expenses | *24* | **11,410,348** | 12,356,289 |
| **Total operating expenses** | | **205,765,836** | 232,643,267 |
| **Net income before zakat and income tax** | | **97,576,585** | 78,725,348 |
| Zakat and income tax expense for the current year | *18* | **(12,734,691)** | (11,727,305) |
| Zakat for the prior years | *18* | **--** | (12,831,866) |
| Deferred tax | *18* | **273,615** | 495,047 |
| | | **(12,461,076)** | (24,064,124) |
| **Net income after zakat and income tax** | | **85,115,509** | 54,661,224 |

The accompanying notes from (1) to (31) are an integral part of these financial statements.

These financial statements were approved by the Board of Directors of the Company on 25 February 2021 and have been signed on its behalf by the following:

**Chief Executive Officer** **Chief Financial Officer**

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF COMPREHENSIVE INCOME**
**For the year ended 31 December 2020**
*(Amounts in Saudi Riyals)*

| | *Note* | 2020 | 2019 |
|---|---|---|---|
| **Net income after zakat and income tax** | | **85,115,509** | 54,661,224 |
| **Other comprehensive income** | | | |
| ***Item that cannot be reclassified to statement of income*** | | | |
| Actuarial gains / (losses) on end of service benefits | 20 | **861,460** | (110,970) |
| **Total comprehensive income for the year** | | 85,976,969 | 54,550,254 |

The accompanying notes from (1) to (31) are an integral part of these financial statements.

These financial statements were approved by the Board of Directors of the Company on 25 February 2021 and have been signed on its behalf by the following:

Chief Executive Officer

Chief Financial Officer

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
**For the year ended 31 December 2020**
*(Amounts in Saudi Riyals)*

| | | For the year ended 31 December 2020 | | | | |
|---|---|---|---|---|---|---|
| | Note | Share capital | Statutory reserve | Other reserve | Retained earnings | Total equity |
| Balance at 1 January 2020 | | 1,000,000,000 | 97,648,519 | 296,000 | 402,144,925 | 1,500,089,444 |
| Net income for the year | | -- | -- | -- | 85,115,509 | 85,115,509 |
| Actuarial gains for end of service benefits | 20 | -- | -- | 861,460 | -- | 861,460 |
| Total comprehensive income for the year | | -- | -- | 861,460 | 85,115,509 | 85,976,969 |
| Transfer to statutory reserve | 22 | -- | 8,511,551 | -- | (8,511,551) | -- |
| **Balance at 31 December 2020** | | **1,000,000,000** | **106,160,070** | **1,157,460** | **478,748,883** | **1,586,066,413** |

| | | For the year ended 31 December 2019 | | | | |
|---|---|---|---|---|---|---|
| | Note | Share capital | Statutory reserve | Other reserve | Retained earnings | Total equity |
| Balance at 1 January 2019 | | 1,000,000,000 | 92,182,397 | 406,970 | 352,949,823 | 1,445,539,190 |
| Net income for the year | | -- | -- | -- | 54,661,224 | 54,661,224 |
| Actuarial losses for end of service benefits | 20 | -- | -- | (110,970) | -- | (110,970) |
| Total comprehensive (loss) / income for the year | | -- | -- | (110,970) | 54,661,224 | 54,550,254 |
| Transfer to statutory reserve | 22 | -- | 5,466,122 | -- | (5,466,122) | -- |
| Balance at 31 December 2019 | | 1,000,000,000 | 97,648,519 | 296,000 | 402,144,925 | 1,500,089,444 |

The accompanying notes from (1) to (31) are an integral part of these financial statements.

These financial statements were approved by the Board of Directors of the Company on 25 February 2021 and have been signed on its behalf by the following:

**Chief Executive Officer**

**Chief Financial Officer**

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF CASH FLOWS**
**For the year ended 31 December 2020**
*(Amounts in Saudi Riyals)*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income before zakat and income tax | | **97,576,585** | 78,725,348 |
| *Adjustments to reconcile net income to net cash generated from operating activities:* | | | |
| Depreciation and amortisation | *23* | **5,201,437** | 5,326,776 |
| Amortisation of deferred origination fees | *10* | **3,975,926** | 4,127,500 |
| Provision for expected credit losses | *5, 9* | **7,500,431** | 11,223,703 |
| Provision for end of service benefits | *20* | **1,887,050** | 1,879,114 |
| Financial charges for lease liability | *12* | **235,607** | 527,396 |
| *Net (increase) / decrease in operating assets:* | | | |
| Prepaid expenses and other assets, net | | **(6,804,375)** | (26,160,954) |
| Due from related parties | | **132,002** | 131,868 |
| Advances to property owners | | **(4,381,423)** | 3,518,718 |
| Investments in finance lease | | **33,380,106** | (63,551,112) |
| *Net increase / (decrease) in operating liabilities:* | | | |
| Accounts payable | | **(42,486,698)** | 19,655,176 |
| Accrued expenses and other liabilities | | **229,373** | 2,588,865 |
| Advance lease rentals | | **(3,099,311)** | (282,364) |
| **Net cash from operations** | | **93,346,710** | 37,710,034 |
| Zakat and income tax paid | *18* | **(16,067,913)** | (32,995,050) |
| End of service benefits paid | *20* | **(2,030,696)** | (1,203,494) |
| Deferred origination fees paid | *10* | **(211,928)** | (108,863) |
| **Net cash generated from operating activities** | | **75,036,173** | 3,402,627 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | *13* | **(1,550,654)** | (1,677,378) |
| Purchase of intangible assets | *14* | **(766,440)** | (1,400,881) |
| **Net cash used in investing activities** | | **(2,317,094)** | (3,078,259) |
| **FINANCING ACTIVITIES** | | | |
| Additions in Tawarruq financing facilities | *19* | **234,831,389** | 365,486,400 |
| Repayment of Tawarruq financing facilities | *19* | **(216,870,225)** | (387,801,948) |
| Payment of principal portion of lease liability | *12* | **(2,551,850)** | (3,452,565) |
| **Net cash generated from / (used in) financing activities** | | **15,409,314** | (25,768,113) |
| **Net increase / (decrease) in cash and cash equivalents** | | **88,128,393** | (25,443,745) |
| Cash and cash equivalents at beginning of the year | | **54,199,589** | 79,643,334 |
| **Cash and cash equivalents at end of the year** | | **142,327,982** | 54,199,589 |
| **Supplemental cash information** | | | |
| Lease finance income received | | **289,973,019** | 296,527,469 |
| Financing charges paid | | **89,669,520** | 136,413,453 |
| **Supplemental non-cash information** | | | |
| Capital work in progress transferred to intangible assets and property and equipment | *13, 14* | **1,947,258** | 2,629,704 |
| Investments in finance lease transferred to other real estate" account | *11* | **11,171,633** | 4,133,790 |

The accompanying notes from (1) to (31) are an integral part of these financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2020**
(*Amounts in Saudi Riyals*)

## 1. THE COMPANY AND PRINCIPAL ACTIVITIES

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

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

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

## 2. BASIS OF PREPARATION

### a) *Statement of compliance*

The financial statements of the Company have been prepared:

- in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA"); and

- in compliance with the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

### 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") and end of service benefits liability which is measured at present value of future obligations using the projected unit credit method.

The statement of financial position is presented in the order of liquidity.

### c) *Functional and presentation currency*

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

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2020**
(*Amounts in Saudi Riyals*)

## 2. BASIS OF PREPARATION (CONTINUED)

### *d) Critical accounting judgements, estimates and assumptions*

The preparation of financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncement issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalization

Recently, number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. The Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. The Company has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Company believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Company. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note to these financial statements.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

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

- Provision for expected credit loss on investments in finance lease, and insurance claims receivable on non-performing decease-case leases (Notes 5 and 9)

The measurement of ECL under IFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2020**
(*Amounts in Saudi Riyals*)

## 2. BASIS OF PREPARATION (CONTINUED)

***d) Critical accounting judgements, estimates and assumption (continued)***

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

1. The selection of an estimation technique or modelling methodology, covering below key judgements and assumptions:

   a) The Company's model, which assigns Probability of Default ("PD");
   b) The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
   c) The segmentation of financial assets when their ECL is assessed;
   d) Development of ECL models, including the various formulas; and
   e) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2. The selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs.

- Fair value measurement (Note 26)
- End of service benefits liability (Note 20)
- Valuation of other real estate assets (Note 11)

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### A. Change in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2019. Based on the adoption of amendments to the existing standards and in consideration of current economic environment, the following accounting policies are applicable effective 1 January 2020 replacing, amending or adding to the corresponding accounting policies set out in 2019 annual financial statements.

*a) New IFRS Standards, interpretations and amendments adopted by the Company*

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after 1 January 2020. The management has assessed that the amendments have no significant impact on the Company's financial statements:

| ***Standard / Amendments*** | ***Description*** |
|---|---|
| Amendments to IFRS 3 | Definition of a Business |
| Amendments to IAS 1 and IAS 8 | Definition of Material |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform |
| Amendments to References | Conceptual Framework in IFRS Standards. |

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2020**
(*Amounts in Saudi Riyals*)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### A. Change in accounting policies (continued)

*b) Accounting Standards issued but not yet effective*

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Company's accounting year beginning on or after 1 January 2021 are listed below. The Company has opted not to early adopt these pronouncements and does not expect a material impact to the financial statements.

| ***Standard / Amendments*** | ***Description*** | ***Effective from periods beginning on or after the following date*** |
|---|---|---|
| Amendment to IFRS 16 | COVID-19-Related rent concessions | 1 June 2020 |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform – Phase 2 | 1 January 2021 |
| Amendments to IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract | 1 January 2022 |
| Amendments to IAS 16 | Property, Plant and Equipment: Proceeds before intended use | 1 January 2022 |
| Amendments to IFRS 3 | Reference to the Conceptual Framework | 1 January 2022 |
| IFRS 17 | Insurance Contracts | 1 January 2023 |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2023 |

### B. Financial instruments

***Classification of financial assets***

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL. As at 31 December 2020 and 2019, the Company does not have Financial assets at FVTPL.

- **Financial assets at amortized cost**

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

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

- **Financial assets at FVOCI**

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

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2020**
(*Amounts in Saudi Riyals*)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**B. Financial instruments (continued)**

***Business model assessment***

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

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

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

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

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

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

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

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2020**
(*Amounts in Saudi Riyals*)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Financial instruments (continued)

***Classification of financial liabilities***

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

***Derecognition***

**i. Financial assets**

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

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. Financial assets originated by the Company and subsequently disposed-off to third parties are derecognised when the rights to receive the contractual cash flows and substantially all of the risks and rewards of ownership of the financial asset are transferred. An intangible asset is recognised and classified as servicing rights under agency agreements in respect of any obligation to service the transferred lease whereby the servicing fee adequately covers the related costs. These assets are accounted for in accordance with accounting policy on intangible assets. The resulting gain or loss on the transaction is recognized in the statement of profit and loss and other comprehensive income under income from agency arrangements.

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

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

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

**ii. Financial liabilities**

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

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2020**
(*Amounts in Saudi Riyals*)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Modification of financial assets and financial liabilities***

**i. Financial assets**

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

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

**ii. Financial liabilities**

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

***Expected Credit Losses ("ECL")***

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

- Investments in finance lease; and
- Insurance claims receivable on non-performing decease-case leases.

No impairment loss is recognized on equity investments.

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

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

**Measurement of ECL**

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

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

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2020**
(*Amounts in Saudi Riyals*)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Financial instruments (continued)

**Restructured financial assets**

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and

.

- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition .This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

**Credit-impaired financial assets**

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

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

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

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

**Presentation of allowance for ECL in the statement of financial position**

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

**Write-off**

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

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2020**
(*Amounts in Saudi Riyals*)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Financial instruments (continued)

***Collateral valuation***

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral is primarily in the form of real estate. The Company's accounting policy for collateral assigned to it through its lending arrangements is in accordance with IFRS 9. Collateral, unless repossessed, is not recorded on the Company's statement of financial position.

However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis.

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

***Collateral repossessed***

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

### C. Income / expense recognition

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

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

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

### D. Cash and cash equivalents

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### E. Investments in finance lease

Investments in finance lease represents net investment in Ijarah leasing contracts which are receivable from customers on account of finance leases. Ijarah is an agreement whereby the Company, acting as a lessor, purchases an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

All leased properties are under the Company's name, except for those where the ownership has been transferred to Arab National Bank (a shareholder) in accordance with the terms of the facilities agreements for Tawarruq financing facilities (refer to Note 19), and for those where the ownership has been kept under the name of Kingdom Installment Company (a shareholder) as a custodian in accordance with the custodian agreement. The contract signed with customer represents an Ijarah contract with irrevocable promises to transfer the ownership, where the legal title of the asset will be passed to the lessee once all Ijarah instalments are settled.

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

***Recognition***

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

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

### F. Application and evaluation fee income

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

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

### G. End of service benefits

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### G. End of service benefits (continued)

IAS 19 – "Employee Benefits" – amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. For details of assumptions and estimate, please refer to Note 20.

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service cost are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs.

Interest cost is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine-settlements; and
- Net interest expense or income.

### H. Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the company. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease.

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

| | *Rate* |
|---|---|
| Leasehold improvements | 10% |
| Motor vehicles | 25% |
| Furniture, fixture and office equipment | 10%-25% |
| Computers | 25%-33.3% |

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### I. Other real estate

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

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

### J. Intangible assets

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

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

Intangible assets comprise of computer software and their estimated useful life for the current and comparative years is 3-5 years. Amortization method and useful life is reviewed at least end of each reporting period.

### K. Impairment of non - financial assets

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

### L. Accounting for leases

**Right-of-use asset / lease liability**

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### L. Accounting for leases (continued

**Right of use assets**

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

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

**Lease liability**

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

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

### M. Deferred origination fees

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

### N. Advance lease rental

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

### O. Accrued expenses and other liabilities

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

### P. Other provision

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

### Q. Proposed dividend and transfer between reserves

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### R. Accounting for zakat and income tax

**Income tax**

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

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

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

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

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

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

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

**Deferred tax**

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

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

Current and deferred tax is recognised in statement of income, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised.

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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### R. Accounting for zakat and income tax (continued)

**Zakat**

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

### S. Transactions with related parties

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

### T. Foreign currency transactions

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

### U. Expenses

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

Sales and marketing expenses excluding compensation cost are those expenses that relates to sales and marketing representatives.

### V. Value Added Tax ("VAT")

The Company collects VAT from its customers for qualifying services provided, and make VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the GAZT representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Company and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

### W. Servicing rights under agency arrangements

An intangible asset is recognised for servicing rights under agency arrangements (acquired by the Company pursuant to sale of originated leases to third parties or as consideration for financing arrangements services) at the present value of net future cash flows under the agency arrangements. The net present value computation encompasses among others, estimates in respect of discount rate and fair value of services.

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## 4. CASH AND CASH EQUIVALENTS

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

| | **2020** | 2019 |
|---|---|---|
| Cash on hand | **22,000** | 22,500 |
| Bank current accounts | **142,305,982** | 54,177,089 |
| | **142,327,982** | 54,199,589 |

## 5. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprise of the following:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Insurance claims receivable on decease-case leases, net | *5.1* | **34,459,222** | 24,013,559 |
| VAT receivable | | **12,412,000** | 22,791,195 |
| Legal claim | | **8,862,577** | 1,018,356 |
| Prepaid Insurance | | **1,091,924** | 43,447 |
| Prepaid financing facility fees (GIB) | | **3,510,625** | 862,500 |
| Advance tax | | **3,849,870** | 3,783,371 |
| Due from REDF | *5.2* | **2,882,103** | 9,354,696 |
| Prepaid software maintenance | | **1,098,044** | 450,630 |
| Prepaid financing facility fees (IFC) | | **1,096,504** | 1,409,800 |
| Sijil registration charges | | **419,400** | 718,200 |
| Employees' advances and receivables | | **132,999** | 130,818 |
| Others | | **1,168,600** | 1,180,917 |
| | | **70,983,868** | 65,757,489 |
| Allowance for provision for legal claim | | **(3,212,577)** | (1,494,089) |
| | | **67,771,291** | 64,263,400 |

5.1 The insurance claims receivable on decease-case lease, net is comprised of the following:

| | **2020** | 2019 |
|---|---|---|
| Insurance claims receivable on decease-case lease | **49,854,017** | 36,111,870 |
| Allowance for provision for ECL | **(15,394,795)** | (12,098,311) |
| | **34,459,222** | 24,013,559 |

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

5.2 The due from REDF balance represents the Company's claim from REDF. These are down payments for the properties which the Company have paid for in advance on behalf of REDF which await reimbursement.

## 6. ADVANCES TO PROPERTY OWNERS

This balance represents the amounts of certified cheques issued under the property owners' name, for the purchase of properties of the Company's Ijarah contracts (approved deals) and for which the transfer of title deeds, in the name of the Company, is in process. These certified cheques are submitted by official Company representatives directly at the Registration Office at the time of title deed transfer. Risk and reward of such Ijarah contracts are not transferred as at the date of statement of financial position.

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## 7. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be done on the same terms, conditions and amounts as transactions between unrelated parties.

The Company's shareholders and all their affiliates are considered as related party of the Company. 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 |
| Dar Al Arkan | Shareholder |
| International Financial Corporation (IFC) | Shareholder |
| Kingdom Instalment company | Shareholder |
| Tharwat Alasool Real Estate Company | Affiliate |

The significant related party transactions during the year are as follows:

| | **2020** | 2019 |
|---|---|---|
| Tawaruq financing charges (ANB) | **62,159,970** | 103,241,287 |
| Residential unit purchased (Dar Alarkan) | **16,836,190** | 20,038,669 |
| Service fees, net | **7,298,316** | 8,782,622 |
| Tawaruq financing charges (IFC) | **6,317,122** | 10,059,030 |
| Deferred origination fees (Note 10) | **211,928** | 108,864 |
| Rent charged by an affiliate | **2,179,940** | 2,179,940 |

The following related party balances are included in the statement of financial position as at 31 December:

| | **2020** | 2019 |
|---|---|---|
| Loan obtained from a shareholder (ANB) | **1,832,298,936** | 1,900,010,120 |
| Loan obtained from a shareholder (IFC) | **140,784,894** | 172,186,266 |
| Deferred origination fees (Note 10) | **22,027,601** | 25,791,599 |
| Prepaid financing facility fees (IFC) | **1,096,504** | 1,409,800 |
| Due from related party related to service fees (ANB) | **633,377** | 765,379 |

**Compensation for Key Management Personnel ("KPM")**

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.

Close family members ("CFMs") of KMP are those family members who may be expected to influence or be influenced by that KMP in their dealings with the Company. CFMs may include the domestic partners and children of KMP, the children of KMP's domestic partner and parents, grandparents, brothers and sisters, grandchildren and other dependents of KMP and the KMP's domestic partner.

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## 7. RELATED PARTY TRANSACTIONS (CONTINUED)

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

| | **2020** | 2019 |
|---|---|---|
| Salaries | **2,545,959** | 2,108,571 |
| End of service benefits | **580,844** | 175,714 |
| Other allowances | **1,733,382** | 799,825 |
| | **4,860,185** | 3,084,110 |

## 8. INVESTMENT

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

Pursuant to Article 18/1 of the financial leasing law, Saudi Financial Lease Contract Registry Company ("SIJIL") was established on 3/2/1439, corresponding to 23 October 2017, under CR No. 1010612415, and SAMA approval no. 381000124076 dated 23/12/1438, corresponding to 14 September 2017.

This Company has been set up by SAMA as a means to further regulate the market and facilitate transfer of leases between suppliers of finance and counterparties. SIJIL has 700,000 shares of SR 10 each. These 700,000 shares have been divided between finance lease companies registered and operating in Saudi Arabia. On 17 December 2017, Saudi Home Loans Company purchased 89,285 shares at SR 10 each, amounting to SR 892,850.

In 2019, the SIJIL has started its operations and accordingly started charging the Company registration charges at SR 450 per deal.

As at 1 January 2018, with the implementation of IFRS 9, the Company has elected to classify this equity investment as FVOCI. As at 31 December 2020, the carrying value of this investment is not materially different to its fair value.

## 9. INVESTMENTS IN FINANCE LEASE, NET

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

| | **2020** | 2019 |
|---|---|---|
| **Minimum lease payments** | | |
| Performing leases | **6,486,242,349** | 6,627,877,566 |
| Non-performing leases | **180,698,409** | 292,442,761 |
| **Investments in finance lease - gross** | **6,666,940,758** | 6,920,320,327 |
| Less: Unearned finance income | **(2,385,371,981)** | (2,603,677,993) |
| **Investments in finance lease before impairment** | **4,281,568,777** | 4,316,642,334 |
| Less: Allowance for expected credit losses | **(82,430,269)** | (78,226,322) |
| **Investments in finance lease – net** | **4,199,138,508** | 4,238,416,012 |
| **Less:** Current portion | **(283,570,327)** | (272,351,588) |
| **Less:** Accrued finance lease receivable | **(42,285,101)** | (42,143,170) |
| Non-current portion | **3,873,283,080** | 3,923,921,254 |

Investments represent net investment in finance lease. Total number of outstanding lease agreements as at 31 December 2020 is 7,041 (31 December 2019: 6,909).

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## 9. INVESTMENTS IN FINANCE LEASE – NET (CONTINUED)

The Company generates substantially all of its revenues from leasing real estate in the Kingdom of Saudi Arabia. Gross amounts due in relation to the finance leases are due from individual customers. Title deeds of the underlying properties are in the name of the Company, except for those where the ownership has been transferred to Arab National Bank (a shareholder) in accordance with the terms of the facility agreement for Tawaruq Financing facilities (refer to note 19), and for those where the ownership has been kept under the name of Kingdom Instalment Company (a shareholder) as a custodian in accordance with the custodian agreement.

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

| | **31 December 2020** |
|---|---|
| Balance at the beginning of the year | **78,226,322** |
| Charge for the year, net | **4,203,947** |
| **Balance at the end of the year** | **82,430,269** |

| | 31 December 2019 |
|---|---|
| Balance at the beginning of the year | 66,899,663 |
| Charge for the year, net | 11,326,659 |
| Balance at the end of the year | 78,226,322 |

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

| **31 December 2020** | **12-month ECL** | **Life time ECL not credit impaired** | **Life time ECL credit impaired** | **Total** |
|---|---|---|---|---|
| Gross carrying amount | **3,623,423,812** | **382,231,466** | **275,913,499** | **4,281,568,777** |
| Allowance for expected credit losses | **(2,154,938)** | **(13,008,217)** | **(67,267,114)** | **(82,430,269)** |
| Net carrying amount | **3,621,268,874** | **369,223,249** | **208,646,385** | **4,199,138,508** |

| 31 December 2019 | 12-month ECL | Life time ECL not credit impaired | Life time ECL credit impaired | Total |
|---|---|---|---|---|
| Gross carrying amount | 3,680,819,462 | 438,006,927 | 197,815,945 | 4,316,642,334 |
| Allowance for expected credit losses | (989,755) | (28,117,460) | (49,119,107) | (78,226,322) |
| Net carrying amount | 3,679,829,707 | 409,889,467 | 148,696,838 | 4,238,416,012 |

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

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## 9. INVESTMENTS IN FINANCE LEASE – NET (CONTINUED)

9.3 Maturity profile of the lease payments is as follows:

| | **2020** | | | 2019 |
|---|---|---|---|---|
| **Year** | **Minimum lease payments** | **Unearned finance income** | **Investments in finance lease** | **Investments in finance lease** |
| Within one year | **592,026,714** | **266,171,286** | **325,855,428** | 314,494,758 |
| Year two | **538,893,121** | **246,519,807** | **292,373,314** | 280,560,759 |
| Year three | **522,872,950** | **226,549,651** | **296,323,299** | 288,467,973 |
| Year four | **500,526,254** | **206,531,863** | **293,994,391** | 292,213,868 |
| Year five and later | **4,512,621,719** | **1,439,599,374** | **3,073,022,345** | 3,140,904,976 |
| | **6,666,940,758** | **2,385,371,981** | **4,281,568,777** | 4,316,642,334 |

9.4 The ageing of investment in finance leases, which are not impaired are as follows:

| **Days past due:** | **2020** | 2019 |
|---|---|---|
| Current | **2,735,793,157** | 2,954,057,564 |
| 1 – 30 | **923,232,713** | 759,346,512 |
| 31 – 60 | **294,727,693** | 314,406,667 |
| 61 –90 | **51,901,715** | 91,015,646 |
| Total | **4,005,655,278** | 4,118,826,389 |

**Collateral**

The Company in the ordinary course of lending activities holds collateral as security to mitigate credit risk. These collaterals are primarily title deeds in the name of the Company, for properties that have been leased out to the portfolio of investments in finance lease. As at 31 December 2020, the carrying amount of gross non-performing leases amounted to SR 159.12 million (2019: SR 177.05 million) and the fair value of identifiable real estate collateral held against them amounted to SR 211.58 million (2019: SR 214.71 million). The Company has a policy to value every year, all real estate properties leased out, by involving approved appraisers.

**SAMA program - customer support on deferral of financing**

During April 2020, SAMA has issued a guidance to financing companies around providing the necessary support for individual customers that lost their jobs in the private sector due to COVID-19, whether directly or indirectly. Accordingly, the Company has received applications from various customers to avail this SAMA program and has effected the payment reliefs by extending the tenure of the applicable investments in finance lease for six months with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the investments in finance lease has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. The Company has deferred the payments amounting to SR 4.44 million for customers and accordingly has recognised modification loss of SR 2.68 million and unwound SR 0.08 during the year ended 31 December 2020. The impact of these modification losses was presented as part of lease finance income. The total gross exposure against these customers amounted to SR 104.3 million at year-end.

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## 10. DEFERRED ORIGINATION FEES

Deferred origination fees comprise of the unamortized portion of commission paid to Arab National Bank, a shareholder for deals originated through the use of its infrastructure, resources and client base.

| | **2020** | 2019 |
|---|---|---|
| Deferred origination fees | **22,027,601** | 25,791,599 |
| Less: Current portion | **(2,654,437)** | (2,908,196) |
| Non-current portion | **19,373,164** | 22,883,403 |

The movement in deferred origination fees is shown below:

| | **2020** | 2019 |
|---|---|---|
| At beginning of the year | **25,791,599** | 29,810,236 |
| Origination fees incurred and paid for the year | **211,928** | 108,863 |
| Origination charge for the year | **(3,975,926)** | (4,127,500) |
| At end of the year | **22,027,601** | 25,791,599 |

## 11. OTHER REAL ESTATE

The Company repossesses real estate assets against settlement of over-due long-term investments in finance lease as follows:

| | **2020** | 2019 |
|---|---|---|
| At beginning of the year | **6,963,475** | 2,829,685 |
| Repossession during the year | **11,171,633** | 4,133,790 |
| Sold during the year | **(4,621,500)** | -- |
| Impairment losses | **(4,856,682)** | -- |
| At end of the year | **8,656,926** | 6,963,475 |

## 12. RIGHT-OF-USE ASSET / LEASE LIABILITY

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

Details on the three contracts are as follows:

| **Lease liability - 2020** | **Riyadh** | **Dammam** | **Jeddah** | **Total** |
|---|---|---|---|---|
| **Undiscounted cash flows based on lease terms** | **6,539,820** | **1,115,730** | **2,500,000** | **10,155,550** |
| Lease liability, 1 January 2020 | **3,868,796** | **699,557** | **1,361,624** | **5,929,977** |
| Additions during the period | **228,014** | **--** | **--** | **228,014** |
| Payment of lease liability | **(2,179,940)** | **(371,910)** | **--** | **(2,551,850)** |
| Amortisation of discount | **204,841** | **30,766** | **--** | **235,607** |
| **Lease liability, 31 December 2020** | **2,121,711** | **358,413** | **1,361,624** | **3,841,748** |
| | | | | |
| **Right-of-use asset - 2020** | | | | |
| Right-of-use asset, 1 January 2020 | **3,837,515** | **739,742** | **1,731,790** | **6,309,047** |
| Additions during the period | **228,014** | **--** | **--** | **228,014** |
| Accumulated depreciation | **(1,957,119)** | **(341,421)** | **(432,948)** | **(2,731,488)** |
| **Right-of-use asset, 31 December 2020** | **2,108,410** | **398,321** | **1,298,842** | **3,805,573** |

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

| **Lease liability - 2019** | **Riyadh** | **Dammam** | **Jeddah** | **Total** |
|---|---|---|---|---|
| **Undiscounted cash flows based on lease terms** | 6,241,972 | 1,115,730 | 2,500,000 | 9,857,702 |
| Lease liability, 1 January 2019 | 5,125,399 | -- | 2,164,738 | 7,290,137 |
| Additions during the period | 540,747 | 1,024,262 | -- | 1,565,009 |
| Payment of lease liability | (2,080,656) | (371,909) | (1,000,000) | (3,452,565) |
| Amortisation of discount | 283,306 | 47,204 | 196,886 | 527,396 |
| **Lease liability, 31 December 2019** | 3,868,796 | 699,557 | 1,361,624 | 5,929,977 |

| **Right-of-use asset – 2019** | | | | |
|---|---|---|---|---|
| Right-of-use asset, 1 January 2019 | 5,125,399 | -- | 2,164,738 | 7,290,137 |
| Additions during the period | 540,747 | 1,024,262 | -- | 1,565,009 |
| Accumulated depreciation | (1,828,631) | (284,520) | (432,948) | (2,546,009) |
| **Right-of-use asset, 31 December 2019** | 3,837,515 | 739,742 | 1,731,790 | 6,309,047 |

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

## 13. PROPERTY AND EQUIPMENT, NET

| **31 December 2020** | **Leasehold improvements** | **Vehicles** | **Furniture, fixtures and office equipment** | **Computers** | **Work-in-process** | **Total** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at beginning of the year | **5,601,697** | **495,001** | **6,034,468** | **8,848,146** | **851,206** | **21,830,518** |
| Additions | **101,674** | **--** | **109,917** | **969,227** | **369,836** | **1,550,654** |
| Disposals | **--** | **(300,000)** | **--** | **(360,035)** | **--** | **(660,035)** |
| Balance at end of the year | **5,703,371** | **195,001** | **6,144,385** | **9,457,338** | **1,221,042** | **22,721,137** |
| **Accumulated depreciation** | | | | | | |
| Balance at beginning of the year | **3,927,994** | **457,706** | **5,087,144** | **7,590,091** | **--** | **17,062,935** |
| Charge for the year | **332,938** | **37,191** | **225,601** | **450,366** | **--** | **1,046,096** |
| Disposal | **--** | **(300,000)** | **--** | **(360,035)** | **--** | **(660,035)** |
| Balance at end of the year | **4,260,932** | **194,897** | **5,312,745** | **7,680,422** | **--** | **17,448,996** |
| **Net book value** | **1,442,439** | **104** | **831,640** | **1,776,916** | **1,221,042** | **5,272,141** |

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## 13. PROPERTY AND EQUIPMENT, NET (CONTINUED)

| 31 December 2019 | Leasehold improvements | Vehicles | Furniture, fixtures and office equipment | Computers | Work-in-process | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at beginning of the year | 5,369,647 | 495,001 | 5,776,840 | 8,109,001 | 402,651 | 20,153,140 |
| Additions | 232,050 | -- | 257,628 | 739,145 | 448,555 | 1,677,378 |
| **Balance at end of the year** | 5,601,697 | 495,001 | 6,034,468 | 8,848,146 | 851,206 | 21,830,518 |
| **Accumulated depreciation** | | | | | | |
| Balance at beginning of the year | 3,608,472 | 372,856 | 4,893,018 | 7,213,531 | -- | 16,087,877 |
| Charge for the year | 319,522 | 84,850 | 194,126 | 376,560 | -- | 975,058 |
| **Balance at end of the year** | 3,927,994 | 457,706 | 5,087,144 | 7,590,091 | -- | 17,062,935 |
| **Net book value** | 1,673,703 | 37,295 | 947,324 | 1,258,055 | 851,206 | 4,767,583 |

## 14. INTANGIBLE ASSETS

| **Cost** | **2020** | 2019 |
|---|---|---|
| Balance at beginning of the year | **10,373,893** | 8,973,012 |
| Additions | **766,440** | 1,400,881 |
| Balance at end of the year | **11,140,333** | 10,373,893 |
| **Accumulated amortisation** | | |
| Balance at beginning of the year | **(7,216,557)** | (5,410,936) |
| Charge for the year | **(1,423,853)** | (1,805,621) |
| Balance at end of year | **(8,640,410)** | (7,216,557) |
| **Net book value** | **2,499,923** | 3,157,336 |

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

## 15. SERVICING RIGHTS UNDER AGENCY ARRANGEMENTS

The Company enters into arrangements for servicing investment in finance leases on behalf of third parties. Such investment in finance leases represent instruments initially originated by the Company and subsequently sold to third party. The Company acts in the sole capacity of servicing agent represented by activities such as collection of lease finance receivables rentals on behalf of the principals. No credit risk is assumed by the Company throughout the period of servicing.

*Assumptions and their sensitivity involved in the calculation of servicing rights under agency arrangements are as follows:*

*Discount rates*
Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration Company's incremental borrowing rate.

*Servicing costs*
The Company assesses the cost of servicing including staff and other costs, to arrive at a base rate per contract.

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## 16. ACCOUNTS PAYABLE

Accounts payable includes amounts pertaining to VAT payable to GAZT payable to evaluation and other services provider companies.

## 17. ACCRUED EXPENSES AND OTHER LIABILITIES

| | **2020** | 2019 |
|---|---|---|
| Employees' related expenses | **7,192,528** | 5,570,132 |
| Accrued insurance charges | **--** | 1,421,442 |
| Accrued legal and consultation fees | **548,500** | 370,000 |
| Provision for maintenance on finance lease contracts | **424,800** | 424,800 |
| Accrued brokerage fees | **57,738** | 16,980 |
| Servicing right liability (Note 15) | **774,923** | -- |
| Others | **327,227** | 1,292,988 |
| Total | **9,325,716** | 9,096,342 |

## 18. PROVISION FOR ZAKAT AND INCOME TAX

Zakat is a levy as defined by the GAZT in the Kingdom of Saudi Arabia on the Saudi shareholders. Income tax charge for the year has been calculated based on adjusted net income of the Company attributable to Non-Saudi shareholders at the rate of 20% per annum.

The Company has filed its zakat and income tax returns for the years from 2008 up to 2019 and have received final assessment up to 2018.

**Prior years zakat settlement**

For financial years 2008 – 2013, the files for these years was closed based on settlement agreed with the authority.

Furthermore, in February 2019, the Company received a settlement agreement from the GAZT to settle the outstanding assessments relating to zakat for the financial years from 2014 to 2017 and provided a settlement calculation method for financial year 2018. The Company accepted this settlement agreement and begun paying the amounts. The remaining balance to be paid as part of this settlement as of 31 December 2020 is SR 12.18 Million.

**2019 zakat regulations**

The GAZT has issued the implementing rules and regulations under Ministerial Decree No. 2216 dated 7 Rajab 1440H (corresponding to 14 March 2019) in respect to the calculation of zakat of financing activities which was applied by the Company effective 1 January 2019. Based on this, the Company has recognised zakat expense amounting to SR 7.97 million for the year ended 31 December 2020 (SR 6.95 million in 31 December 2019).

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## 18. PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED)

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

| | **2020** | 2019 |
|---|---|---|
| Balance, beginning of the year | **27,978,017** | 36,413,896 |
| Provision for zakat for the current year | **7,969,857** | 6,945,907 |
| Provision for zakat for the previous years | **--** | 12,831,866 |
| Provision for income tax for the current year | **4,764,834** | 4,781,398 |
| Payment during the year | **(16,067,913)** | (32,995,050) |
| Balance, end of the year | **24,644,795** | 27,978,017 |

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

| **Income tax** | **2020** | 2019 |
|---|---|---|
| Taxable net income | **110,007,892** | 93,848,752 |
| Non-Saudi portion of the adjusted net income | **23,101,657** | 19,708,238 |
| Finance charges in excess of allowed amount | **--** | 4,541,956 |
| Non-Saudi share of utilized provisions previously added back to the taxable income | **(607,353)** | (343,204) |
| | **22,494,304** | 23,906,990 |
| Income tax for the year (20%) | **4,498,861** | 4,781,398 |

**Deferred tax asset**

| | **31 December 2020** | 31 December 2019 |
|---|---|---|
| Balance at the beginning of the year | **4,563,723** | 4,068,676 |
| Movement during the period | **273,615** | 495,047 |
| Balance at end of the year | **4,837,338** | 4,563,723 |

The Company's deferred tax assets arise primarily from employees' end of service benefits liability, allowance for expected credit losses on investment in finance lease and depreciation of property and equipment.

| **2020** | **Beginning balance** | **Recognised in the statement of income** | **Ending balance** |
|---|---|---|---|
| **Deductible temporary difference** | | | |
| Depreciation of property and equipment | **313,507** | **(8,626)** | **304,881** |
| Provision for end of service benefits liability | **393,830** | **(42,214)** | **351,616** |
| Provision for expected credit losses | **3,856,386** | **324,455** | **4,180,841** |
| **Balance at end of the year** | **4,563,723** | **273,615** | **4,837,338** |

| **2019** | **Beginning balance** | **Recognised in the statement of income** | **Ending balance** |
|---|---|---|---|
| **Deductible temporary difference** | | | |
| Depreciation of property and equipment | 342,873 | (29,366) | 313,507 |
| Provision for end of service benefits liability | 360,793 | 33,037 | 393,830 |
| Provision for credit losses | 3,365,010 | 491,376 | 3,856,386 |
| **Balance at end of the year** | 4,068,676 | 495,047 | 4,563,723 |

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## 19. TAWARRUQ FINANCING FACILITIES

| | **2020** | 2019 |
|---|---|---|
| Current portion of facilities | **1,091,739,856** | 421,615,415 |
| Non-current portion of facilities | **1,714,657,021** | 2,372,498,640 |
| Total excluding financial charges | **2,809,396,877** | 2,794,114,055 |
| Accrued Tawaruq financing charges | **13,486,900** | 7,808,558 |
| Total including financial charges | **2,819,883,777** | 2,801,922,613 |

This item represents the Tawarruq financing facilities from Arab National Bank (shareholder) (“ANB”), International Finance Corporation (Shareholder) (“IFC”), Gulf International Bank (“GIB”), National commercial Bank (“NCB”) and Saudi Refinance Company (“SRC”) to finance the investments in finance lease.

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 6 months/ 3 months SAIBOR. Facility repayment schedule is based on equal semi-annual or quarter payment.

The movements during the year ended 31 December are as follows:

| | **2020** | 2019 |
|---|---|---|
| Balance as at beginning of the year | **2,801,922,613** | 2,824,238,161 |
| Borrowings made during the year | **224,322,158** | 357,677,842 |
| Repayment during the year | **(212,369,801)** | (380,323,854) |
| Finance charge accrued during the year | **93,167,534** | 137,200,554 |
| Finance charge repayments during the year | **(87,158,727)** | (136,870,090) |
| Balance as at end of the year | **2,819,883,777** | 2,801,922,613 |

The outstanding balance for these facilities is as follows:

| | **2020** | 2019 |
|---|---|---|
| Arab National Bank | **1,832,298,936** | 1,900,010,120 |
| Gulf International Bank | **392,920,322** | 401,395,147 |
| International Finance Corporation | **140,784,894** | 172,186,266 |
| National Commercial Bank | **377,881,841** | 328,331,080 |
| Saudi Real Estate Refinance Company | **75,997,784** | -- |
| Total | **2,819,883,777** | 2,801,922,613 |

The finance charge related to these facilities is as follows:

| | **2020** | 2019 |
|---|---|---|
| Arab National Bank | **62,159,970** | 103,241,287 |
| Gulf International Bank | **13,932,011** | 20,761,994 |
| International Finance Corporation | **6,317,122** | 10,059,030 |
| National Commercial Bank | **9,760,646** | 3,138,243 |
| Saudi Real Estate Refinance Company | **997,785** | -- |
| Total | **93,167,534** | 137,200,554 |

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## 19. TAWARRUQ FINANCING FACILITIES (CONTINUED)

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

| Maturity date | | Facility amount | Outstanding balance | Current portion | Non-current portion |
|---|---|---|---|---|---|
| June 2021 | ANB | 500,000,000 | 228,203,728 | 228,203,728 | -- |
| March 2022 | ANB | 500,000,000 | 41,384,380 | 13,644,970 | 27,739,410 |
| June 2022 | ANB | 650,000,000 | 418,344,404 | 28,951,321 | 389,393,083 |
| October 2023 | ANB | 500,000,000 | 368,524,652 | 16,839,344 | 351,685,308 |
| October 2023 | ANB | 150,000,000 | 109,887,110 | 5,021,158 | 104,865,952 |
| August 2020 | ANB | 206,696,969 | 165,357,576 | 165,357,576 | -- |
| January 2021 | ANB | 350,000,000 | 299,185,008 | 299,185,008 | -- |
| July 2023 | ANB | 400,000,000 | 201,412,078 | 16,393,290 | 185,018,788 |
| | | **3,256,696,969** | **1,832,298,936** | **773,596,395** | **1,058,702,541** |
| January 2021 | GIB | 300,000,000 | 172,888,167 | 172,888,167 | -- |
| July 2023 | GIB | 150,000,000 | 138,009,468 | 6,009,468 | 132,000,000 |
| June 2025 | GIB | 415,000,000 | 82,022,687 | 9,133,798 | 72,888,889 |
| | | **865,000,000** | **392,920,322** | **188,031,433** | **204,888,889** |
| September 2034 | NCB | 282,074,992 | 264,572,261 | 14,230,705 | 250,341,556 |
| November 2034 | NCB | 50,602,850 | 48,168,785 | 2,626,220 | 45,542,565 |
| January 2035 | NCB | 67,322,158 | 65,140,795 | 3,709,325 | 61,431,470 |
| | | **400,000,000** | **377,881,841** | **20,566,250** | **357,315,591** |
| June 2021 | SRC | **100,000,000** | **75,997,784** | **75,997,784** | **--** |
| June 2025 | IFC | **187,500,000** | **140,784,894** | **47,034,894** | **93,750,000** |
| **Total** | | **4,809,196,969** | **2,819,883,777** | **1,105,226,756** | **1,714,657,021** |

Tawarruq financing facilities are scheduled for repayment as follows:

| Year | 2020 | 2019 |
|---|---|---|
| 2020 | **--** | 429,423,974 |
| 2021 | **1,105,226,756** | 808,243,838 |
| 2022 | **514,524,737** | 517,313,016 |
| 2023 | **796,900,026** | 760,804,289 |
| 2024 | **60,361,111** | 53,428,524 |
| 2025 | **65,555,556** | 37,803,524 |
| 2026 – 2035 | **277,315,591** | 194,905,448 |
| | **2,819,883,777** | 2,801,922,613 |

In response to COVID-19, SAMA launched the *Private Sector Financing Support Program* ("PSFSP") in March 2020 to provide the necessary support to the SME sector, including financing companies, through empowering and facilitating the financing community. Among others, the PSFSP includes deferred payments program which the Company availed.

As part of the deferred payments program, the management based on its assessment of the Company's liquidity has notified the Company's bank lenders during the year where the Company opted to defer payments amounting to SR 352.19 million for six months on its lending facilities by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months by increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. Since the inception of the deferred payments program by SAMA and by the end of the year, the Company has recognised SR 6.6 million of related modification gains, out of which SR 5.58 million have been unwound.

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## 20. END OF SERVICE BENEFITS

The Company operates an 'End of service benefit plan' for its staffs based on the prevailing Saudi Labour Laws. As at 31 December 2020, actuarial valuation was carried out by the Company which estimated the plan liability to be SR 8.37 million.

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

| | **2020** | 2019 |
|---|---|---|
| Defined benefit obligation at the beginning of the year | **9,376,906** | 8,590,316 |
| Current service cost | **1,594,609** | 1,465,902 |
| Interest cost on defined benefit obligation | **292,441** | 413,212 |
| Benefits paid/payable to outgoing members during the year | **(2,030,696)** | (1,203,494) |
| Actuarial (gain) / loss on obligation | **(861,460)** | 110,970 |
| Defined benefit obligation at the end of the year | **8,371,800** | 9,376,906 |

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

| | **2020** | 2019 |
|---|---|---|
| Current service cost | **1,594,609** | 1,465,902 |
| Interest cost on defined benefit obligation | **292,441** | 413,212 |
| Cost recognised in the statement of income | **1,887,050** | 1,879,114 |
| Actuarial (gain) / loss on obligation recognised in OCI | **(861,460)** | 110,970 |
| Total defined benefit cost recognised during the year | **1,025,590** | 1,990,084 |

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

| | **2020** | 2019 |
|---|---|---|
| Loss from change in financial assumptions | **141,771** | 327,991 |
| Gain due to change in demographic assumptions | **(496,240)** | (840) |
| Gain from change in experience assumptions | **(506,991)** | (216,181) |
| Actuarial re-measurement of the defined benefit obligation | **(861,460)** | 110,970 |

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

| | **2020** | 2019 |
|---|---|---|
| Discount rate | **1.70%** | **2.95%** |
| Expected rate of salary increase | **5%** | **2.95%** |
| Normal retirement age | **60** | **60** |

During 2020, the discount rate has been reduced to SR 1.70% to reflect the current market yields of sovereign bonds considering the average duration of the defined benefit obligation of 7 years. Furthermore, management has increased the expected salary increase rate to 5% based on the recent available trend on salary increases of the Company's employees.

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

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## 20. END OF SERVICE BENEFITS (CONTINUED)

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

| | **2020** | 2019 |
|---|---|---|
| Weighted average duration of the defined benefit obligation | **7.38** | 10.00 |
| Distribution of timing of benefit payments | | |
| Year 1 | **929,036** | 514,065 |
| Year 2 | **1,472,969** | 1,048,836 |
| Year 3 | **981,220** | 669,863 |
| Year 4 | **968,761** | 740,403 |
| Year 5 | **1,033,132** | 799,588 |
| Year 6-10 | **5,515,498** | 7,298,055 |

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December 2020 and 2019 to the discount rate and the expected rate of salary increase while other assumptions remain constant.

| | **2020** | 2019 |
|---|---|---|
| Discount rate, +0.5% | **(309,577)** | (469,679) |
| Discount Rate, -0.5% | **309,577** | 469,679 |
| Expected rate of salary increase, +0.5% | **251,859** | 364,120 |
| Expected rate of salary increase, -0.5% | **(251,859)** | (364,120) |

## 21. SHARE CAPITAL

The authorised, issued and fully paid share capital of the company consists of 100 million shares of SAR 10 each (2019: 100 million shares of SAR 10 each).

The ownership of the company's share capital is as follows:

| | **No. of shares** | **Share capital** |
|---|---|---|
| Arab National Bank | 40,000,000 | 400,000,000 |
| Dar Al Arkan Real Estate Development Company | 15,000,000 | 150,000,000 |
| Kingdom Instalment Company | 9,000,000 | 90,000,000 |
| Youssef bin Abdullah Al Shalash | 8,000,000 | 80,000,000 |
| Tareq Mohammad Al Jarallah | 6,000,000 | 60,000,000 |
| Hathlool Bin Saleh Al Hathlool | 6,000,000 | 60,000,000 |
| International Finance Corporation | 5,000,000 | 50,000,000 |
| Abdulatif Bin Abdullah Al Shalash | 5,000,000 | 50,000,000 |
| Inma Almadaen Company | 4,000,000 | 40,000,000 |
| Daem Al Khaleej Company | 2,000,000 | 20,000,000 |
| **Total** | **100,000,000** | **1,000,000,000** |

## 22. STATUTORY RESERVES

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

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## 23. GENERAL AND ADMINISTRATIVE EXPENSES

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Employees' salaries and other benefits | | **49,473,859** | 40,360,818 |
| Portfolio insurance charges | | **15,193,707** | 13,243,357 |
| Depreciation and amortisation | *12, 13, 14* | **5,201,437** | 5,326,776 |
| Impairment loss on other real estate | *11* | **4,856,682** | -- |
| Consultation fees | | **4,620,229** | 2,833,910 |
| Software support charges | | **2,854,603** | 1,632,094 |
| Collection commission | | **2,501,196** | 2,278,085 |
| VAT expense | | **2,134,145** | 425,799 |
| Provision against legal claim | *5* | **1,718,488** | 475,733 |
| Telecommunication expenses | | **920,300** | 693,216 |
| Repairs and maintenance | | **616,161** | 343,739 |
| Bank charges | | **470,743** | 589,902 |
| Travel expenses | | **372,548** | 768,906 |
| Recruitment related expenses | | **247,667** | 227,430 |
| Printing and stationery | | **163,631** | 136,129 |
| Withholding tax | | **11,287** | 28,520 |
| Others | | **2,330,840** | 2,498,307 |
| | | **93,687,523** | 71,862,721 |

Other expense mainly include provision for legal claims, subscription expenses and various expenses.

## 24. SELLING AND MARKETING EXPENSES

| | **2020** | 2019 |
|---|---|---|
| Sales and title commission | **2,634,637** | 2,098,337 |
| Origination expenses | **3,975,926** | 4,127,500 |
| Evaluation fees | **2,668,360** | 2,282,185 |
| Marketing expenses | **1,250,384** | 3,626,879 |
| Others | **881,041** | 221,388 |
| | **11,410,348** | 12,356,289 |

## 25. FINANCIAL RISK MANAGEMENT

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

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

### Credit risk

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit risk (continued)

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

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

The Company seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. Management monitors the market value of collateral obtained during its review of the adequacy of the impairment allowance for credit losses. The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

### i. Credit quality analysis

**Amounts arising from ECL – Significant increase in credit risk**

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining lifetime probability of default ("PD") as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

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

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

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

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Credit risk (continued)**

**ii. Generating the term structure of PD**

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

**iii. Determining whether credit risk has increased significantly**

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

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

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

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

*Consideration due to COVID-19:*
In response to the impacts of COVID-19, the Company has deferred eligible instalments of customers who applied in line with the program of SAMA (note 9). The exercise of the deferment option by a customer, in its own, is not considered by the Company as triggering SICR and as a consequence impact on ECL.

**iv) Modified financial assets**

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

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

### iv) Modified financial assets (continued)

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

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

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

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

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

During the year, no material losses were recognized on modification or restructuring of any facility.

### v) Definition of 'Default'

The Company considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to Company in full; or
- the borrower is past due more than 90 days on any material credit obligation to the Company.

In assessing whether a borrower is in default the Company considers indicators that are:
- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Company;

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

### vi) Incorporation of forward-looking information

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

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

### vi) Incorporation of forward-looking information (continued)

The Company has identified and documented key drivers of credit risk and credit losses for its portfolio and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. Listed below are the key independent variables selected on the basis of correlation used as at 31 December 2020.

- GDP based on purchasing-power-parity share of world total
- General government gross debt (% of GDP; and
- General government total expenditure (% of GDP).

The economic scenarios used as at 31 December 2020 included the following ranges of key macroeconomic variables:

| Macroeconomic variable | 31 December 2020 |
|---|---|
| GDP based on purchasing-power-parity share of world total | Upside 30%<br>Base case 40%<br>Downside 30% |
| General government gross debt (% of GDP) | |
| General government total expenditure (% of GDP) | |

| Macroeconomic variable | 31 December 2019 |
|---|---|
| GDP, constant prices (in national currency) | Upside 30%<br>Base case 40%<br>Downside 30% |
| Gross national savings (% of GDP) | |
| General government total expenditure (in national currency) | |

*Considerations due to COVID-19:*

1. Types of forward looking:

   The Company has updated its forward-looking variables (key economic drivers), refer to the above table.

2. Scenario assumptions

   As at 31 December 2020, the scenario assumptions are updated to reflect the current situation of COVID-19. This included an assessment of the support of the Government's actions, the response of business and customers (such as repayment deferrals). These are considered in determining the severity of the forecasts for each macroeconomic indicator.

3. Probability weightings

   The Company considered the probability weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Company's credit portfolios in determining them.

   Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current period is the continuing impact of COVID-19.

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 years. To account for the impact of COVID-19, the Company has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

| **Macroeconomic variable** | **Forecast calendar years used in 2020 ECL model** | | |
|---|---|---|---|
| | **2021** | **2022** | **2023** |
| GDP based on purchasing-power-parity share of world total | 1.23% | 1.29% | 1.28% |
| General government gross debt (% of GDP) | 35.69% | 36.46% | 37.88% |
| General government total expenditure (% of GDP) | 35.31% | 37.06% | 36.95% |

*Sensitivity of ECL allowance:*
The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Company's allowance for expected credit losses. The changing COVID-19 circumstances and the Government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the year end:

| **Assumptions sensitized** | **Impact to the 2020 ECL – increase / (decrease)** |
|---|---|
| *Macro-economic factors:* | |
| Decrease in GDP based on purchasing-power-parity share of world total by 10% | 132,365 |
| Increase in general government gross debt by 10% | 76,925 |
| Decease in general government total expenditure by 10% | 11,246 |
| | |
| *Scenario weightages:* | |
| Base scenario reduced by -10% with corresponding change in downside | 531,795 |
| Base scenario reduced by -10% with corresponding change in upside | (232,398) |

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

### vii) Measurement of ECL

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

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

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

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD based on the history of recovery rates of claims against defaulted counterparties. LGD estimation considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset. Due to sparse historical defaults, the quantitative LGD estimates are adjusted based on expert judgement to arrive at the 25% final haircut of the collateral value and cost to liquidate.

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

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

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

### c. Loss allowance

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

| | | Lifetime ECL as at 2020 | | |
|---|---|---|---|---|
| **Investments in finance lease before impairment** | **12 Month ECL** | **Not credit Impaired** | **Credit impaired** | **Total** |
| Opening balance at 1 January | 3,680,819,462 | 438,006,927 | 197,815,945 | 4,316,642,334 |
| Transfer to 12 Month ECL | 116,692,185 | (112,719,420) | (3,972,765) | -- |
| Transfer to Lifetime ECL(not credit impaired) | (174,263,012) | 181,795,074 | (7,532,062) | -- |
| Transfer to Lifetime ECL (credit impaired) | (15,786,512) | (95,138,064) | 110,924,576 | -- |
| Net change for the year | 15,961,689 | (29,713,051) | (21,322,195) | (35,073,557) |
| **Closing balance** | 3,623,423,812 | 382,231,466 | 275,913,499 | 4,281,568,777 |

| | | Lifetime ECL as at 2020 | | |
|---|---|---|---|---|
| **Loss allowance** | **12 Month ECL** | **Not credit Impaired** | **Credit impaired** | **Total** |
| Opening balance at 1 January | 989,755 | 28,117,460 | 49,119,107 | 78,226,322 |
| Transfer to 12 Month ECL | 92,275 | (87,781) | (4,494) | -- |
| Transfer to Lifetime ECL (not credit impaired) | (103,888) | 437,837 | (333,949) | -- |
| Transfer to Lifetime ECL (credit impaired) | (11,025) | (4,690,056) | 4,701,081 | -- |
| Net charge / (reversal) for the year | 1,187,821 | (10,769,243) | 13,785,369 | 4,203,947 |
| **Closing balance** | 2,154,938 | 13,008,217 | 67,267,114 | 82,430,269 |

| | | Lifetime ECL as at 2020 | | |
|---|---|---|---|---|
| **Insurance claims receivable** | **12 Month ECL** | **Not credit Impaired** | **Credit impaired** | **Total** |
| Opening balance at 1 January | 20,013,909 | -- | 16,097,961 | 36,111,870 |
| Net change for the year | 9,313,714 | -- | 4,428,433 | 13,742,147 |
| **Closing balance** | 29,327,623 | -- | 20,526,394 | 49,854,017 |

| | | Lifetime ECL as at 2020 | | |
|---|---|---|---|---|
| **Loss allowance** | **12 Month ECL** | **Not credit Impaired** | **Credit impaired** | **Total** |
| Opening balance at 1 January | -- | -- | 12,098,311 | 12,098,311 |
| Net charge for the year | -- | -- | 3,296,484 | 3,296,484 |
| **Closing balance** | -- | -- | 15,394,795 | 15,394,795 |

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

| | | Lifetime ECL as at 2019 | | |
|---|---|---|---|---|
| Investments in finance lease before impairment | 12 Month ECL | Not credit Impaired | Credit impaired | Total |
| Opening balance at 1 January | 3,520,021,639 | 469,193,929 | 268,009,444 | 4,257,225,012 |
| Transfer to 12 Month ECL | 200,830,212 | (178,401,887) | (22,428,325) | -- |
| Transfer to Lifetime ECL (not credit impaired) | (146,189,110) | 212,512,015 | (66,322,905) | -- |
| Transfer to Lifetime ECL (credit impaired) | (16,386,581) | (23,595,303) | 39,981,884 | -- |
| Net change for the year | 122,543,302 | (41,701,827) | (21,424,153) | 59,417,322 |
| Closing balance | 3,680,819,462 | 438,006,927 | 197,815,945 | 4,316,642,334 |

| | | Lifetime ECL as at 2019 | | |
|---|---|---|---|---|
| Loss allowance | 12 Month ECL | Not credit impaired | Credit impaired | Total |
| Opening balance at 1 January | 1,573,096 | 10,168,698 | 55,157,869 | 66,899,663 |
| Transfer to 12 Month ECL | 88,664 | (81,027) | (7,637) | -- |
| Transfer to Lifetime ECL (not credit impaired) | (64,932) | 3,581,993 | (3,517,061) | -- |
| Transfer to Lifetime ECL (credit impaired) | (8,076) | (561,526) | 569,602 | -- |
| Net (reversal) / charge for the year | (598,997) | 15,009,322 | (3,083,666) | 11,326,659 |
| Closing balance | 989,755 | 28,117,460 | 49,119,107 | 78,226,322 |

| | | Lifetime ECL as at 2019 | | |
|---|---|---|---|---|
| Insurance claims receivable | 12 Month ECL | Not credit impaired | Credit impaired | Total |
| Opening balance at 1 January | 8,902,954 | -- | 16,268,357 | 25,171,311 |
| Net change for the year | 11,110,955 | -- | (170,396) | 10,940,559 |
| Closing balance | 20,013,909 | -- | 16,097,961 | 36,111,870 |

| | | Lifetime ECL as at 2019 | | Total |
|---|---|---|---|---|
| Loss allowance | 12 Month ECL | Not credit impaired | Credit impaired | |
| Opening balance at 1 January | -- | -- | 12,201,267 | 12,201,267 |
| Net charge for the year | -- | -- | (102,956) | (102,956) |
| Closing balance | -- | -- | 12,098,311 | 12,098,311 |

### d. Collateral

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

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## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

| **Loan to Value (SAR 000)** | **2020** | 2019 |
|---|---|---|
| Less than 50% | **18,840** | 15,830 |
| 51-70% | **71,441** | 82,358 |
| More than 70% | **121,299** | 116,523 |
| Total | **211,580** | 214,711 |

### Liquidity risk

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

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

| ***2020*** | **No contractual maturity** | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and bank balances | **142,327,982** | -- | -- | -- | -- | **142,327,982** |
| Invest. in finance lease (gross) | -- | **138,434,725** | **453,591,989** | **2,037,127,436** | **4,037,786,608** | **6,666,940,758** |
| Prepaid expenses and other assets | -- | **11,845,124** | **32,426,378** | -- | -- | **44,271,502** |
| Advances to property owners | -- | **6,773,991** | -- | -- | -- | **6,773,991** |
| Due from related parties | -- | **633,377** | -- | -- | -- | **633,377** |
| **Total assets** | **142,327,982** | **157,687,217** | **486,018,367** | **2,037,127,436** | **4,037,786,608** | **6,860,947,610** |

| ***2020*** | **No contractual maturity** | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Tawarruq financing facilities | -- | **732,022,409** | **373,204,347** | **1,437,341,430** | **277,315,591** | **2,819,883,777** |
| Accounts payable | -- | **8,106,379** | -- | -- | -- | **8,106,379** |
| Advances received from customers | -- | **4,396,874** | -- | -- | -- | **4,396,874** |
| Acc. expenses and other liabilities | -- | **9,325,715** | -- | -- | -- | **9,325,715** |
| **Total liabilities** | -- | **753,851,377** | **373,204,347** | **1,437,341,430** | **277,315,591** | **2,841,712,745** |
| **Net** | **142,327,982** | **(596,164,160)** | **112,814,020** | **599,786,006** | **3,760,471,017** | **4,019,234,865** |

| ***2019*** | **No contractual maturity** | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and bank balances | 54,199,589 | -- | -- | -- | -- | 54,199,589 |
| Invest. in finance lease (gross) | -- | 143,678,811 | 421,115,538 | 2,124,436,183 | 4,231,089,795 | 6,920,320,327 |
| Prepaid expenses and other assets | -- | 15,592,244 | 18,319,328 | 450,000 | -- | 34,361,572 |
| Advances to property owners | -- | 2,392,568 | -- | -- | -- | 2,392,568 |
| Due from related parties | -- | 765,379 | -- | -- | -- | 765,379 |
| **Total assets** | 54,199,589 | 162,429,002 | 439,434,866 | 2,124,886,183 | 4,231,089,795 | 7,012,039,435 |

| ***2019*** | **No contractual maturity** | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Tawarruq financing facilities | -- | 48,044,745 | 381,379,228 | 2,139,789,668 | 232,708,972 | 2,801,922,613 |
| Accounts payable | -- | 23,920,326 | 24,339,788 | 2,332,963 | -- | 50,593,077 |
| Advances received from customers | -- | 7,496,185 | -- | -- | -- | 7,496,185 |
| Acc. expenses and other liabilities | -- | 8,607,271 | -- | -- | -- | 8,607,271 |
| **Total liabilities** | -- | 88,068,527 | 405,719,016 | 2,142,122,631 | 232,708,972 | 2,868,619,146 |
| **Net** | 54,199,589 | 74,360,475 | 33,715,850 | -17,236,448 | 3,998,380,823 | 4,143,420,289 |

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2020**
(*Amounts in Saudi Riyals*)

## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

| | Increase/ decrease in basis points | Sensitivity of finance charges | Sensitivity analysis: 12 months or less | More than 12 months | Total |
|---|---|---|---|---|---|
| Tawarruq financing facilities | +10 | 6,969,064 | 1,830,031 | 5,139,033 | 6,969,064 |
| | -10 | (6,969,064) | (1,830,031) | (5,139,033) | (6,969,064) |

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

## 26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The principal or the most advantageous market is accessible by the Company. Financial instruments comprise of investment in finance leases and equity investment.

***Fair value hierarchy***

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

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

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

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

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost, except for equity investment which is classified as FVOCI. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance leases. The fair value of net investment in finance lease is determined using discounted cash flow technique using credit adjusted SIBOR. The expected rates are determined based on the risk profile of lease receivables and current commission rates.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2020**
(*Amounts in Saudi Riyals*)

## 26. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

| | | **31 December 2020** | | | |
|---|---|---|---|---|---|
| | **Carrying Value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Net investments in finance leases | **4,199,138,508** | **--** | **--** | **4,458,298,049** | **4,458,298,049** |
| Investment | **892,850** | **--** | **--** | **892,850** | **892,850** |
| Total | | **--** | **--** | **4,459,190,899** | **4,459,190,899** |

| | | 31 December 2019 | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
| Net investments in finance leases | 4,238,416,012 | -- | -- | 4,233,224,682 | 4,233,224,682 |
| Investment | 892,850 | -- | -- | 892,850 | 892,850 |
| Total | | -- | -- | 4,234,117,532 | 4,234,117,532 |

## 27. CAPITAL MANAGEMENT

The Company manages and controls its capital structure and liquidity needs in order to safeguard the Company's ability to meet its future obligations and growing plans and continue as a going concern. The Company monitors the adequacy of its capital using below measures:

| | **2020** | 2019 |
|---|---|---|
| | **Total capital ratio %** | Total capital ratio % |
| Capital ratio | **22.53** | 22.80 |

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

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

## 28. COMMITMENT AND CONTINGENCIES

The Company faces during its normal activity some lawsuits and other claims related to the nature of its activity, however, significant claims are not expected to result from the outstanding lawsuits as at the financial statements date.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2020**
(*Amounts in Saudi Riyals*)

## 29. SUBSEQUENT EVENTS

No material events occurred after the reporting date that require adjustment or need to be disclosed the in the financial statements.

## 30. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform with the current year's presentation.

## 31. BOARD OF DIRECTORS APPROVAL

These financial statements were approved by the Board of Directors on 13 Rajab 1442H corresponding to 25 February 2021.

# 19-4 Financial Statements For the three months period ended 31 March 2021

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED FINANCIAL STATEMENTS**
**(Unaudited)**
**For the three months period ended 31 March 2021**
Together with the
**Independent auditor's review report**

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED FINANCIAL STATEMENTS**
**For the three months period ended 31 March 2021**

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KPMG

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Riyadh Front, Airport Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Headquarter

Commercial Registration No 1010425494

**كي بي إم جي للاستشارات المهنية**
واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

# Independent auditor's review report on the interim condensed financial statements

## To the shareholders of Saudi Home Loans Company

### Introduction

We have reviewed the accompanying 31 March 2021 interim condensed financial statements of **Saudi Home Loans Company** ("the Company"), which comprises:

- the interim condensed statement of financial position as at 31 March 2021;
- the interim condensed statement of comprehensive income for the three months period ended 31 March 2021;
- the interim condensed statement of changes in equity for the three months period ended 31 March 2021;
- the interim condensed statement of cash flows for the three months period ended 31 March 2021; and
- the notes to the interim condensed financial statements.

Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with the International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2021 interim condensed financial statements of **Saudi Home Loans Company** are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

**KPMG Professional Services**

**Ebrahim Oboud Baeshen**
License No: 382

15 Ramadan 1442H
Corresponding to 27 April 2021

Lic No. 46
C.R. 4030290792
KPMG
KPMG Professional Services

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

| | Note | As at 31 March 2021 (Unaudited) | As at 31 December 2020 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | **85,112,834** | 142,327,982 |
| Other receivables, net | *4* | **150,121,817** | 55,604,405 |
| Prepaid expenses and other assets | *5* | **10,679,881** | 12,166,886 |
| Advances to property owners | *6* | **19,486,000** | 6,773,991 |
| Due from a related party | *7* | **787,266** | 633,377 |
| Investment | *8* | **892,850** | 892,850 |
| Investments in finance lease, net | *9* | **4,193,847,667** | 4,199,138,508 |
| Deferred origination fees | *10* | **21,073,726** | 22,027,601 |
| Other real estate | | **11,908,152** | 8,656,926 |
| Right-of-use asset, net | | **3,203,245** | 3,805,573 |
| Property and equipment, net | | **4,926,383** | 5,272,141 |
| Intangible assets, net | | **2,865,334** | 2,499,923 |
| Deferred tax assets | *14* | **4,709,468** | 4,837,338 |
| **Total assets** | | **4,509,614,623** | 4,464,637,501 |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Accounts payable | *11* | **6,684,563** | 8,106,379 |
| Accrued expenses and other liabilities | *12* | **10,596,366** | 9,325,715 |
| Advance lease rentals | | **9,918,752** | 4,396,874 |
| Lease liability | | **1,353,393** | 3,841,748 |
| Provision for zakat and income tax | *13* | **28,183,616** | 24,644,795 |
| Tawarruq financing facilities | *15* | **2,828,583,257** | 2,819,883,777 |
| End of service benefits liability | *16* | **8,883,689** | 8,371,800 |
| **Total liabilities** | | **2,894,203,636** | 2,878,571,088 |
| **Equity** | | | |
| Share capital | *17* | **1,000,000,000** | 1,000,000,000 |
| Statutory reserve | *18* | **109,107,070** | 106,160,070 |
| Other reserve | | **1,032,032** | 1,157,460 |
| Retained earnings | | **505,271,885** | 478,748,883 |
| **Total equity** | | **1,615,410,987** | 1,586,066,413 |
| **Total liabilities and equity** | | **4,509,614,623** | 4,464,637,501 |

The accompanying notes from (1) to (26) are an integral part of these interim condensed financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**
**For the three months periods ended 31 March 2021**
*(Amounts in Saudi Riyals)*

| | Notes | For the three months ended March 31 2021 | 2020 |
|---|---|---|---|
| Lease finance income | | **69,798,777** | 73,861,201 |
| Service fees, net | | **1,467,777** | 1,928,683 |
| Application and evaluation fee income | | **1,878,250** | 1,687,000 |
| Other income | *4.1* | **2,847,227** | -- |
| **Total operating income** | | **75,992,031** | 77,476,884 |
| Financing charges | | **(18,845,869)** | (28,427,355) |
| General and administrative expenses | *20* | **(24,131,618)** | (23,784,588) |
| Reversal of / (charge for) expected credit losses | *4, 9* | **4,906,277** | (4,178,714) |
| Selling and marketing expenses | *19* | **(3,869,633)** | (3,390,917) |
| **Net income before zakat and income tax** | | **34,051,188** | 17,695,310 |
| Zakat and income tax expense for the current period | *13* | **(3,538,821)** | (2,200,745) |
| Income tax for the prior periods | *13* | **(914,495)** | -- |
| Deferred tax credit / (expense) | *14* | **(127,870)** | 191,563 |
| | | **(4,581,186)** | (2,009,182) |
| **Net income for the period** | | **29,470,002** | 15,686,128 |
| Other comprehensive (loss) / income | | | |
| Actuarial (losses) / gains on end of service benefits | *16* | **(125,428)** | 129,233 |
| **Total comprehensive income for the period** | | **29,344,574** | 15,815,361 |

The accompanying notes from (1) to (26) are an integral part of these interim condensed financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**
**For the three months period ended 31 March 2021**
*(Amounts in Saudi Riyals)*

| | | **For the three months period ended 31 March 2021** | | | | |
|---|---|---|---|---|---|---|
| | ***Note*** | **Share capital** | **Statutory reserve** | **Other reserve** | **Retained earnings** | **Total equity** |
| Balance at beginning of the period | | **1,000,000,000** | **106,160,070** | **1,157,460** | **478,748,883** | **1,586,066,413** |
| Net income for the period | | **--** | **--** | **--** | **29,470,002** | **29,470,002** |
| Actuarial losses on end of service benefits | *16* | **--** | **--** | **(125,428)** | | **(125,428)** |
| Total comprehensive income for the period | | **--** | **--** | **(125,428)** | **29,470,002** | **29,344,574** |
| Transfer to statutory reserve | *18* | **--** | **2,947,000** | **--** | **(2,947,000)** | **--** |
| Balance at end of the period | | **1,000,000,000** | **109,107,070** | **1,032,032** | **505,271,885** | **1,615,410,987** |

| | | For the three months period ended 31 March 2020 | | | | |
|---|---|---|---|---|---|---|
| | *Note* | Share capital | Statutory reserve | Other reserve | Retained earnings | Total equity |
| Balance at beginning of the period | | 1,000,000,000 | 97,648,519 | 296,000 | 402,144,925 | 1,500,089,444 |
| Net income for the period | | -- | -- | -- | 15,686,128 | 15,686,128 |
| Actuarial gains on end of service benefits | *16* | -- | -- | 129,233 | | 129,233 |
| Total comprehensive income for the period | | -- | -- | 129,233 | 15,686,128 | 15,815,361 |
| Transfer to statutory reserve | *18* | -- | 1,568,613 | -- | (1,568,613) | -- |
| Balance at end of the period | | 1,000,000,000 | 99,217,132 | 425,233 | 416,262,440 | 1,515,904,805 |

The accompanying notes from (1) to (26) are an integral part of these interim condensed financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)**
**For the three months period ended 31 March 2021**
*(Amounts in Saudi Riyals)*

| | Notes | For the three months ended March 31 2021 | 2020 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income before zakat and income tax | | **34,051,188** | 17,695,310 |
| ***Adjustments to reconcile net income before zakat and income tax to net cash used in operating activities:*** | | | |
| Depreciation and amortisation | 20 | **1,006,205** | 1,416,183 |
| Impairment loss on other real estate assets | 20 | **60,165** | 2,562,999 |
| Amortisation of deferred origination fees | | **979,085** | 1,001,999 |
| (Reversal of) / provision for expected credit losses | 4, 9 | **(4,906,276)** | 4,178,714 |
| Provision for end of service benefits | 16 | **400,501** | 471,763 |
| Amortization of discount on lease liability | | **191,216** | 192,468 |
| *Net (increase) / decrease in operating assets:* | | | |
| Other receivables, net | | **(94,144,704)** | 502,526 |
| Prepaid expenses and other assets, net | | **1,487,005** | (3,162,759) |
| Due from related parties | | **(153,889)** | (1,409,224) |
| Advance to property owner | | **(12,712,009)** | (3,698,932) |
| Investments in finance lease, net | | **6,513,018** | (44,427,292) |
| *Net increase / (decrease) in operating liabilities:* | | | |
| Accounts payable | | **(1,421,817)** | 7,955,240 |
| Accrued expenses and other liabilities | | **1,270,651** | 713,661 |
| Advance lease rentals | | **5,521,878** | (2,705,807) |
| **Net cash used in operations** | | **(61,857,783)** | (18,713,151) |
| Zakat and income tax paid | 13 | **(914,495)** | -- |
| End of service benefits paid | 16 | **(14,040)** | -- |
| Deferred origination fees paid | | **(25,210)** | (140,802) |
| **Net cash used in operating activities** | | **(62,811,528)** | (18,853,953) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | | **(358,935)** | (368,675) |
| Purchase of intangible assets | | **(127,375)** | (22,500) |
| **Net cash used in investing activities** | | **(486,310)** | (391,175) |
| **FINANCING ACTIVITIES** | | | |
| Additions in Tawarruq financing facilities | | **106,458,645** | 129,424,328 |
| Repayment of Tawarruq financing facilities | | **(97,759,165)** | (58,809,156) |
| Payment of principal portion of lease liability | | **(2,616,790)** | (2,068,046) |
| **Net cash generated from financing activities** | | **6,082,690** | 68,547,126 |
| **Net (decrease) / increase in cash and cash equivalents** | | **(57,215,148)** | 49,301,998 |
| Cash and cash equivalents at beginning of the period | | **142,327,982** | 54,199,589 |
| **Cash and cash equivalents at end of the period** | | **85,112,834** | 103,501,587 |
| **Supplemental cash information** | | | |
| Lease finance income received | | **68,761,417** | 74,376,272 |
| Financing charges paid | | **18,450,180** | 24,133,743 |

The accompanying notes from (1) to (26) are an integral part of these interim condensed financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**
**For the three months period ended 31 March 2021**
(*Amounts in Saudi Riyals*)

## 1. ACTIVITIES

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

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

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

## 2. BASIS OF PREPARATION

### a) Statement of compliance

The interim condensed financial statements of the Company as at and for the period ended 31 March 2021 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 Organisation for Chartered and Professional Accountants ("SOCPA"). The interim condensed 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 2020.

The financial statements of the Company as at and for the year ended 31 December 2020, were prepared in accordance with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA.

### 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") and end of service benefits liability which is measured at present value of future obligations using the projected unit credit method.

The interim condensed statement of financial position is presented in the order of liquidity.

### c) Functional and presentation currency

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements as at and for the year ended 31 December 2020.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**
**For the three months period ended 31 March 2021**
(*Amounts in Saudi Riyals*)

## 4. OTHER RECEIVABLES, NET

| | *Note* | **31 March 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|---|
| Due from Saudi Real Estate Refinance Company (SRC) | *4.1* | **95,008,076** | 68,081 |
| Insurance claims receivable on decease-case leases, net | *4.2* | **35,838,328** | 34,459,222 |
| VAT receivable | | **12,176,606** | 12,412,000 |
| Legal claim | | **8,862,577** | 8,862,577 |
| Due from REDF | | **1,294,195** | 2,882,103 |
| Employees' advances and receivables | | **154,612** | 132,999 |
| | | **153,334,394** | 58,816,982 |
| Allowance for provision for legal claim | | **(3,212,577)** | (3,212,577) |
| | | **150,121,817** | 55,604,405 |

4.1 This mainly includes the consideration for the sale of portfolio to SRC which was received subsequent to period-end (i.e. 7 April 2021). On 30 March 2021, SRC and the Company entered into Portfolio Purchase Agreement whereby the Company sold investments in finance lease with a carrying value of SR 92.78 million for SR 94.96.million and recognized a gain of SR 2.08 million presented as Other income in the interim condensed statement of income. Accordingly, these investments in finance lease were derecognised at the time of sale.

4.2 The insurance claims receivable on decease-case lease, net comprise of the following:

| | **31 March 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Insurance claims receivable on decease-case leases | **50,860,415** | 49,854,017 |
| Allowance for provision for ECL | **(15,022,087)** | (15,394,795) |
| | **35,838,328** | 34,459,222 |

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

## 5. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprise of the following:

| | **31 March 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Advance tax | **3,849,870** | 3,849,870 |
| Prepaid financing facility fees (GIB) | **3,298,750** | 3,510,625 |
| Prepaid financing facility fees (IFC) | **1,018,180** | 1,096,504 |
| Prepaid software maintenance | **833,628** | 1,098,044 |
| Prepaid Insurance | **424,486** | 1,091,924 |
| Sijil registration charges | **288,000** | 419,400 |
| Others | **966,967** | 1,100,519 |
| | **10,679,881** | 12,166,886 |

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**
**For the three months period ended 31 March 2021**
(*Amounts in Saudi Riyals*)

## 6. ADVANCES TO PROPERTY OWNERS

This balance represents the amounts of certified cheques issued under the property owners' name, for the purchase of properties of the Company's Ijara Contracts (approved deals) and for which the transfer of title deeds, in the name of the Company, is in process. These certified cheques are submitted by official Company representatives directly at the Registration office at the time of title deed transfer. Risk and reward of such Ijarah contracts are not transferred as at the date of statement of financial position.

## 7. RELATED PARTY TRANSACTIONS

The Company's shareholders and all their affiliates are considered as related party of the Company. 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 | Shareholder |
| International Financial Corporation | Shareholder |
| Kingdom Installment Company | Shareholder |
| Dar Al Arkan | Shareholder |
| Tharwat Alasool Real Estate Company | Affiliate |

The significant transactions during the period are as follows:

| | **31 March 2021 (Unaudited)** | 31 March 2020 (Unaudited) |
|---|---|---|
| Tawaruq financing charges (ANB) | **12,400,385** | 18,519,155 |
| Residential unit purchased (Dar Alarkan) | **8,871,970** | -- |
| Service fees, net | **1,467,777** | 1,928,683 |
| Tawaruq financing charges (IFC) | **924,824** | 2,032,621 |
| Rent charged by an affiliate | **544,985** | 544,985 |
| Deferred origination fees | **25,210** | 140,802 |

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

| | **31 March 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Loan obtained from a shareholder (ANB) | **1,825,184,023** | 1,832,298,936 |
| Loan obtained from a shareholder (IFC) | **141,631,394** | 140,784,894 |
| Deferred origination fees (Note 10) | **21,073,726** | 22,027,601 |
| Prepaid financing facility fees (IFC) | **1,018,180** | 1,096,504 |
| Due from related party related to service fees (ANB) | **787,266** | 633,377 |

**Compensation of key management personnel**

KMP are those having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Company's KMP includes the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer.

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## 7. RELATED PARTY TRANSACTIONS (CONTINUED)

**Compensation of key management personnel (continued)**

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

| | **31 March 2021 (Unaudited)** | 31 March 2020 (Unaudited) |
|---|---|---|
| Salaries | **659,000** | 799,825 |
| End of service benefits | **54,917** | 51,288 |
| Other allowances | **210,542** | 89,328 |
| | **924,459** | 940,441 |

## 8. INVESTMENT

On 17 December 2017, the Company purchased 89,285 shares of Saudi Financial Lease Contract Registry Company ("Sijil") at SR 10 each, amounting to SR 892,850. The Company has elected to classify this equity investment as FVOCI. As at the date of these interim condensed financial statements, the carrying value of this investment is not materially different to its fair value.

## 9. INVESTMENTS IN FINANCE LEASE, NET

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

| | **31 March 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Minimum lease payments | | |
| Performing leases | **6,356,344,699** | 6,390,357,327 |
| Non-performing leases | **253,738,768** | 276,583,431 |
| **Investments in finance lease, gross** | **6,610,083,467** | 6,666,940,758 |
| Less: Unearned finance income | **(2,338,339,100)** | (2,385,371,981) |
| **Investments in finance lease before impairment** | **4,271,744,367** | 4,281,568,777 |
| Less: Allowance for expected credit losses | **(77,896,700)** | (82,430,269) |
| **Investments in finance lease, net** | **4,193,847,667** | 4,199,138,508 |
| **Less:** Current portion | **(284,521,398)** | (283,570,327) |
| **Less:** Accrued finance lease receivable | **(43,322,461)** | (42,285,101) |
| Non-current portion | **3,866,003,808** | 3,873,283,080 |

Total number of outstanding lease agreements as at 31 March 2021 is 7,081 (31 December 2020: 7041).

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

| | **31 March 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Opening balance, as reported | **82,430,269** | 78,226,322 |
| (Reversal) / charge for the period | **(4,533,569)** | 4,203,947 |
| **Closing balance** | **77,896,700** | 82,430,269 |

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

9.2 The credit quality of investments in finance lease as at 31 March 2021 (unaudited) is as follows:

| | **12-month ECL** | **Lifetime ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
|---|---|---|---|---|
| Gross carrying amount | **3,687,801,088** | **339,367,521** | **244,575,758** | **4,271,744,367** |
| Allowance for expected credit losses | **(2,371,559)** | **(11,657,050)** | **(63,868,091)** | **(77,896,700)** |
| Net carrying amount | **3,685,429,529** | **327,710,471** | **180,707,667** | **4,193,847,667** |

The credit quality of investments in finance lease as at 31 December 2020 (audited) is as follows:

| | 12-month ECL | Lifetime ECL not credit impaired | Lifetime ECL credit impaired | Total |
|---|---|---|---|---|
| Gross carrying amount | 3,623,423,812 | 382,231,466 | 275,913,499 | 4,281,568,777 |
| Allowance for expected credit losses | (2,154,938) | (13,008,217) | (67,267,114) | (82,430,269) |
| Net carrying amount | 3,621,268,874 | 369,223,249 | 208,646,385 | 4,199,138,508 |

9.3 Maturity profile of the lease payments is as follows:

| | | **31 March 2021 (unaudited)** | | 31 December 2020 (audited) |
|---|---|---|---|---|
| **Year** | **Minimum lease payments** | **Unearned finance income** | **Investments in finance lease** | Investments in finance lease |
| Within one year | **592,679,758** | **264,835,899** | **327,843,859** | 325,855,428 |
| Year two | **538,213,152** | **245,579,397** | **292,633,754** | 292,373,314 |
| Year three | **521,296,969** | **226,103,744** | **295,193,225** | 296,323,299 |
| Year four | **497,839,716** | **206,637,802** | **291,201,914** | 293,994,391 |
| Year five and later | **4,460,053,872** | **1,395,182,258** | **3,064,871,614** | 3,073,022,345 |
| | **6,610,083,467** | **2,338,339,100** | **4,271,744,367** | 4,281,568,777 |

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

9.4 Expected credit loss allowance on investments in finance lease as at 31 March 2021 (unaudited) is as follows:

| | | **Lifetime ECL** | | |
|---|---|---|---|---|
| **Loss Allowance** | **12-month ECL** | **Not credit Impaired** | **Credit impaired** | **Total** |
| Opening balance at 1 January 2021 | **2,154,938** | **13,008,217** | **67,267,114** | **82,430,269** |
| Transfer to 12 Month ECL | **86,530** | **(82,445)** | **(4,085)** | **--** |
| Transfer to lifetime ECL (not credit impaired) | **(68,470)** | **344,074** | **(275,604)** | **--** |
| Transfer to lifetime ECL (credit impaired) | **(631)** | **(360,399)** | **361,030** | **--** |
| Net charge / (reversal) for the period | **199,192** | **(1,252,398)** | **(3,480,363)** | **(4,533,569)** |
| Closing balance as at 31 March 2021 | **2,371,559** | **11,657,049** | **63,868,092** | **77,896,700** |

Expected credit loss allowance on investments in finance lease as at 31 December 2020 (audited) is as follows:

| | | Lifetime ECL | | Total |
|---|---|---|---|---|
| Loss allowance | 12 Month ECL | Not credit Impaired | Credit impaired | |
| Opening balance at 1 January 2020 | 989,755 | 28,117,460 | 49,119,107 | 78,226,322 |
| Transfer to 12 Month ECL | 92,275 | (87,781) | (4,494) | -- |
| Transfer to lifetime ECL (not credit impaired) | (103,888) | 437,837 | (333,949) | -- |
| Transfer to lifetime ECL (credit impaired) | (11,025) | (4,690,056) | 4,701,081 | -- |
| Net charge / (reversal) for the period | 1,187,821 | (10,769,243) | 13,785,368 | 4,203,947 |
| Closing balance as of 31 December 2020 | 2,154,938 | 13,008,217 | 67,267,113 | 82,430,269 |

**Collateral**

The Company in the ordinary course of lending activities holds collateral as security to mitigate credit risk. These collaterals are primarily title deeds in the name of the Company, for properties that have been leased out to the portfolio of investments in finance lease. As at 31 March 2021, the carrying amount of gross non-performing leases amounted to SR 147.10 million (31 December 2020: SR 159.12 million) and the fair value of identifiable real estate collateral held against them amounted to SR 198.97 million (31 December 2020: SR 211.58 million). The Company has a policy to perform valuation annually on all real estate properties leased out by involving approved appraisers.

**SAMA program - customer support on deferral of financing**

During April 2020, SAMA has issued a guidance to financing companies around providing the necessary support for individual customers that lost their jobs in the private sector due to COVID-19, whether directly or indirectly. Accordingly, the Company has received applications from various customers to avail this SAMA program and has effected the payment reliefs by extending the tenor of the applicable investments in finance lease for six months with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the investments in finance lease has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. The Company has deferred the payments amounting to SR 4.44 million for customers and accordingly has recognised modification loss of SR 2.68 million and unwound SR 80,159 for the year ended 31 December 2020 and SR 34,251 for the period ended 31 March 2021. The impact of these modification losses was presented as part of lease finance income.

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## 10. DEFERRED ORIGINATION FEES

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

| | **31 March 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Deferred origination fees | **21,073,726** | 22,027,601 |
| Less: Current portion | **(2,579,190)** | (2,654,437) |
| Non-current portion | **18,494,536** | 19,373,164 |

## 11. ACCOUNTS PAYABLE

Accounts payable includes amounts pertaining to VAT payable to GAZT payable to evaluation and other services provider companies.

## 12. ACCRUED EXPENSES AND OTHER LIABILITIES

| | **31 March 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Employees' related expenses | **8,777,969** | 7,192,528 |
| Provision for maintenance on finance lease contracts | **424,800** | 424,800 |
| Accrued legal and consultation fees | **361,000** | 548,500 |
| Servicing right liability | **349,958** | 774,923 |
| Accrued brokerage fees | **82,948** | 57,738 |
| Others | **599,691** | 327,227 |
| Total | **10,596,366** | 9,325,716 |

## 13. PROVISION FOR ZAKAT AND INCOME TAX

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

| | **31 March 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Balance, beginning of the period / year | **24,644,795** | 27,978,017 |
| Zakat and income tax expense for the current period / year | **3,538,821** | 12,734,691 |
| Income tax for the prior periods | **914,495** | -- |
| Payment during the period / year | **(914,495)** | (16,067,913) |
| Balance, end of the period / year | **28,183,616** | 24,644,795 |

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

On 3 February 2021, the Company received income tax assessment from GAZT for the years 2014 and 2015 for SR 0.91 million. The Company has settled the assessment on 18 March 2021.

The Company has filed its zakat and income tax returns for the years up to 2019 and have received final assessment for zakat up to 2018 and final income tax assessment up to 2015.

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## 14. DEFERRED TAX

| | 31 March 2021 (Unaudited) | 31 December 2020 (Audited) |
|---|---|---|
| Balance at the beginning of the period / year | **4,837,338** | 4,563,723 |
| Movement for the period / year | **(127,870)** | 273,615 |
| Balance at end of the period / year | **4,709,468** | 4,837,338 |

The Company's deferred tax assets arise primarily from employees' end of service benefits liability and expected credit losses.

## 15. TAWARRUQ FINANCING FACILITIES

| | 31 March 2021 (Unaudited) | 31 December 2020 (Audited) |
|---|---|---|
| Current portion of facilities | **519,740,584** | 1,091,739,856 |
| Non-current portion of facilities | **2,302,384,029** | 1,714,657,021 |
| Total excluding financial charges | **2,822,124,613** | 2,806,396,877 |
| Accrued Tawarruq financing charges | **6,458,644** | 13,486,900 |
| | **2,828,583,257** | 2,819,883,777 |

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

| | 31 March 2021 (Unaudited) | 31 December 2020 (Audited) |
|---|---|---|
| Arab National Bank | **1,825,184,023** | 1,832,298,936 |
| Gulf International Bank | **411,392,082** | 392,920,322 |
| International Finance Corporation | **141,631,394** | 140,784,894 |
| National Commercial Bank | **374,796,932** | 377,881,841 |
| Saudi Real Estate Refinance Company | **75,578,826** | 75,997,784 |
| | **2,828,583,257** | 2,819,883,777 |

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 6 months SAIBOR. Facility repayment schedule is based on equal semi-annual or quarter payment.

In response to COVID-19, SAMA launched the *Private Sector Financing Support Program* ("PSFSP") in March 2020 to provide the necessary support to the SME sector, including financing companies, through empowering and facilitating the financing community. Among others, the PSFSP includes deferred payments program which the Company availed.

As part of the deferred payments program, the management based on its assessment of the Company's liquidity has notified the Company's bank lenders during the year where the Company opted to defer payments amounting to SR 352.19 million for six months on its lending facilities by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months without increasing the facility tenor. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. Since the inception of the deferred payments program by SAMA and by 31 December 2020, the Company has recognised SR 6.60 million of related modification gains. Out of which SR 5.58 million have been unwound for the year ended 31 December 2020 and SR 1.02 have been unwound for the period ended 31 March 2021.

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## 16. END OF SERVICES 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 are as follows:

| | **31 March 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Defined benefit obligation at the beginning of the period / year | **8,371,800** | 9,376,906 |
| Current service cost | **363,807** | 1,594,609 |
| Interest cost on defined benefit obligation | **36,694** | 292,441 |
| Benefits paid to outgoing employees | **(14,040)** | (2,030,696) |
| Actuarial losses / (gains) on obligation | **125,428** | (861,460) |
| Defined benefit obligation at the end of the period / year | **8,883,689** | 8,371,800 |

## 17. SHARE CAPITAL

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

The ownership of the Company's share capital is as follows:

| | **No. of shares** | **Share capital** |
|---|---|---|
| Arab National Bank | 40,000,000 | 400,000,000 |
| Dar Al Arkan Real Estate Development Company | 15,000,000 | 150,000,000 |
| Kingdom Instalment Company | 9,000,000 | 90,000,000 |
| Youssef bin Abdullah Al Shalash | 8,000,000 | 80,000,000 |
| Tareq Mohammad Al Jarallah | 6,000,000 | 60,000,000 |
| Hathlool Bin Saleh Al Hathlool | 6,000,000 | 60,000,000 |
| International Finance Corporation | 5,000,000 | 50,000,000 |
| Abdulatif Bin Abdullah Al Shalash | 5,000,000 | 50,000,000 |
| Inma Almadaen Company | 4,000,000 | 40,000,000 |
| Daem Al Khaleej Company | 2,000,000 | 20,000,000 |
| **Total** | **100,000,000** | **1,000,000,000** |

## 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.

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## 19. SELLING AND MARKETING EXPENSES

| | For the three months ended March 31 (unaudited) | |
|---|---|---|
| | **2021** | 2020 |
| Sales and title commission | **1,524,449** | 899,197 |
| Evaluation fees | **1,258,078** | 801,600 |
| Origination expenses | **979,085** | 1,001,999 |
| Marketing expenses | **39,020** | 607,600 |
| Others | **69,001** | 80,521 |
| | **3,869,633** | 3,390,917 |

## 20. GENERAL AND ADMINISTRATIVE EXPENSES

| | For the three months ended March 31 (unaudited) | |
|---|---|---|
| | **2021** | 2020 |
| Employees' salaries and other benefits | **12,871,847** | 11,877,258 |
| Insurance expenses | **6,033,909** | 3,858,787 |
| VAT expense | **1,100,601** | 100,894 |
| Depreciation and amortisation | **1,006,205** | 1,416,183 |
| Consultation fees | **733,341** | 1,922,715 |
| Collection commission | **660,650** | 599,585 |
| Software support charges | **429,120** | 331,869 |
| Telecommunication expenses | **210,000** | 224,980 |
| Travel expenses | **124,756** | 176,230 |
| Bank charges | **105,160** | 133,019 |
| Repairs and maintenance | **87,367** | 125,722 |
| Impairment loss on other real estate assets | **60,165** | 2,562,999 |
| Printing and stationery | **48,983** | 80,169 |
| Recruitment related expenses | **37,923** | 72,297 |
| Withholding tax | **11,582** | 7,508 |
| Others | **610,009** | 294,373 |
| | **24,131,618** | 23,784,588 |

## 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 of investments in finance leases, net.

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## 21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

***Fair value hierarchy***

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

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

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

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

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost, except for equity investment which is classified as FVOCI. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance leases. The fair value of net investment in finance lease is determined using discounted cash flow technique using credit adjusted SIBOR. The expected rates are determined based on the risk profile of lease receivables and current commission rates.

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. Other financial liabilities such as accounts payable and accrued expenses and other liabilities approximate their fair values due to them being short-term in nature. There had been no inter-level transfers during the year / period.

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

| | | **31 March 2021 (Unaudited)** | | | |
|---|---|---|---|---|---|
| | **Carrying value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Net investments in finance leases** | **4,193,847,667** | **--** | **--** | **4,463,030,717** | **4,463,030,717** |
| **Investments** | **892,850** | | | **892,850** | **892,850** |
| **Total** | | **--** | **--** | **4,463,923,567** | **4,463,923,567** |

| | | 31 December 2020 (Audited) | | | |
|---|---|---|---|---|---|
| | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| Net investments in finance leases | 4,199,138,508 | -- | -- | 4,458,298,049 | 4,458,298,049 |
| Investments | 892,850 | | | 892,850 | 892,850 |
| Total | | -- | -- | 4,459,190,899 | 4,459,190,899 |

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(A Saudi Closed Joint Stock Company)
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**
**For the three months period ended 31 March 2021**
(*Amounts in Saudi Riyals*)

## 22. CAPITAL MANAGEMENT

The Company manages and controls its capital structure and liquidity needs in order to safeguard the Company's ability to meet its future obligations and growing plans and continue as a going concern. The Company monitors the adequacy of its capital using below measures:

| | **31 March 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Total capital ratio % | **22.18%** | 22.53% |

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

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

## 23. COMMITMENT AND CONTINGENCIES

The Company faces during its normal activity some lawsuits and other claims related to the nature of its activity. However, significant claims are not expected to result from the outstanding lawsuits as at the financial statements date.

## 24. SUBSEQUENT EVENTS

There have been no events subsequent to the reporting date that would require adjustment nor disclosure to the interim condensed financial statements.

## 25. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform with the current period's presentation.

## 26. APPROVAL OF THE BOARD OF DIRECTORS

These financial statements were approved by the Board of Directors on 13 Ramadan 1442H (corresponding to 25 April 2021).

# 19-5 Financial Statements For the six months period ended 30 June 2021

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED FINANCIAL STATEMENTS**
**(Unaudited)**
**For the six months period ended 30 June 2021**
Together with the
**Independent auditor's review report**

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED FINANCIAL STATEMENTS**
**For the six months period ended 30 June 2021**

**KPMG Professional Services**
Riyadh Front, Airport Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Headquarter

Commercial Registration No 1010425494

**كي بي إم جي للاستشارات المهنية**
واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

# Independent auditor's review report on the interim condensed financial statements

## To the shareholders of Saudi Home Loans Company

### Introduction

We have reviewed the accompanying 30 June 2021 interim condensed financial statements of **Saudi Home Loans Company** ("the Company"), which comprises:

- the interim condensed statement of financial position as at 30 June 2021;
- the interim condensed statement of comprehensive income for the three months and six months periods ended 30 June 2021;
- the interim condensed statement of changes in equity for the six months period ended 30 June 2021;
- the interim condensed statement of cash flows for the six months period ended 30 June 2021; and
- the notes to the interim condensed financial statements.

Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with the International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2021 interim condensed financial statements of **Saudi Home Loans Company** are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

**KPMG Professional Services**

كي بي - إم - جي للإستشارات المهنية
Lic No. 46
C.R. 4030290792
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KPMG
KPMG Professional Services

**Ebrahim Oboud Baeshen**
License no: 382

25 Dhul Hijjah 1442H
Corresponding to 4 August 2021

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

| | *Note* | **As at 30 June 2021 (Unaudited)** | As at 31 December 2020 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | **107,608,945** | 142,327,982 |
| Other receivables, net | *4* | **49,848,109** | 55,604,405 |
| Prepaid expenses and other assets | *5* | **8,812,698** | 12,166,886 |
| Advances to property owners | *6* | **16,978,475** | 6,773,991 |
| Due from a related party | *7* | **1,179,935** | 633,377 |
| Investment | *8* | **892,850** | 892,850 |
| Investments in finance lease, net | *9* | **4,211,508,131** | 4,199,138,508 |
| Murabaha financing, net | | **4,671,943** | -- |
| Deferred origination fees | *10* | **20,245,950** | 22,027,601 |
| Other real estate | | **13,123,175** | 8,656,926 |
| Right-of-use asset, net | | **2,600,915** | 3,805,573 |
| Property and equipment, net | | **4,658,224** | 5,272,141 |
| Intangible assets, net | | **2,734,551** | 2,499,923 |
| Deferred tax assets | *14* | **4,468,419** | 4,837,338 |
| **Total assets** | | **4,449,332,320** | 4,464,637,501 |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Accounts payable | *11* | **6,217,777** | 8,106,379 |
| Accrued expenses and other liabilities | *12* | **13,100,020** | 9,325,715 |
| Advance lease rentals | | **9,367,326** | 4,396,874 |
| Lease liability | | **1,353,393** | 3,841,748 |
| Provision for zakat and income tax | *13* | **18,696,480** | 24,644,795 |
| Tawarruq financing facilities | *15* | **2,746,880,981** | 2,819,883,777 |
| End of service benefits liability | *16* | **9,025,644** | 8,371,800 |
| **Total liabilities** | | **2,804,641,621** | 2,878,571,088 |
| **Equity** | | | |
| Share capital | *17* | **1,000,000,000** | 1,000,000,000 |
| Statutory reserve | *18* | **112,035,990** | 106,160,070 |
| Other reserve | | **1,022,550** | 1,157,460 |
| Retained earnings | | **531,632,159** | 478,748,883 |
| **Total equity** | | **1,644,690,699** | 1,586,066,413 |
| **Total liabilities and equity** | | **4,449,332,320** | 4,464,637,501 |

The accompanying notes from (1) to (26) are an integral part of these interim condensed financial statements.

- 2 -

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**
**For the three months and six months periods ended 30 June 2021**
*(Amounts in Saudi Riyals)*

| | | For the three months ended June 30 | | For the six months ended June 30 | |
|---|---|---|---|---|---|
| | *Notes* | **2021** | 2020 | **2021** | 2020 |
| Financing income | | **70,862,524** | 71,401,662 | **140,661,301** | 145,262,863 |
| Service fees, net | | **1,389,692** | 1,848,828 | **2,857,469** | 3,777,511 |
| Application and evaluation fee income | | **1,018,171** | 1,175,209 | **2,896,421** | 2,862,209 |
| Other income | *4.2* | **213,465** | -- | **3,060,692** | -- |
| **Total operating income** | | **73,483,852** | 74,425,699 | **149,475,883** | 151,902,583 |
| Financing charges | | **(18,602,626)** | (22,375,947) | **(37,448,495)** | (50,803,302) |
| General and administrative expenses | *20* | **(26,338,620)** | (21,602,689) | **(50,650,988)** | (45,387,277) |
| Reversal of / (charge for) expected credit losses | *4, 9* | **6,722,110** | (10,858,165) | **11,628,386** | (15,036,879) |
| Selling and marketing expenses | *19* | **(2,787,336)** | (3,583,279) | **(6,476,218)** | (6,974,196) |
| **Net income before zakat and income tax** | | **32,477,380** | 16,005,619 | **66,528,568** | 33,700,929 |
| Zakat and income tax expense for the current period | *13* | **(2,947,137)** | (2,029,320) | **(6,485,958)** | (4,230,065) |
| Zakat for the prior periods | *13* | **--** | -- | **(914,495)** | -- |
| Deferred tax (expense) / credit | *14* | **(241,049)** | 504,335 | **(368,919)** | 695,898 |
| | | **(3,188,186)** | (1,524,985) | **(7,769,372)** | (3,534,167) |
| **Net income for the period** | | **29,289,194** | 14,480,634 | **58,759,196** | 30,166,762 |
| **Other comprehensive (loss) / gain** | | | | | |
| *Item that cannot be subsequently reclassified to the statement of income:* | | | | | |
| Actuarial (loss) / gain on end of service benefits | *16* | **(9,482)** | (292,817) | **(134,910)** | (163,584) |
| **Total comprehensive income for the period** | | **29,279,712** | 14,187,817 | **58,624,286** | 30,003,178 |

The accompanying notes from (1) to (26) are an integral part of these interim condensed financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**
**For the six months period ended 30 June 2021**
*(Amounts in Saudi Riyals)*

| | | **For the six months period ended 30 June 2021** | | | | |
|---|---|---|---|---|---|---|
| | *Note* | **Share capital** | **Statutory reserve** | **Other reserve** | **Retained earnings** | **Total equity** |
| Balance at beginning of the period | | **1,000,000,000** | **106,160,070** | **1,157,460** | **478,748,883** | **1,586,066,413** |
| Net income for the period | | -- | -- | -- | **58,759,196** | **58,759,196** |
| Actuarial loss on end of service benefits | *16* | -- | -- | **(134,910)** | -- | **(134,910)** |
| Total comprehensive income for the period | | -- | -- | **(134,910)** | **58,759,196** | **58,624,286** |
| Transfer to statutory reserve | *18* | -- | **5,875,920** | -- | **(5,875,920)** | -- |
| Balance at end of the period | | **1,000,000,000** | **112,035,990** | **1,022,550** | **531,632,159** | **1,644,690,699** |

| | | For the six months period ended 30 June 2020 | | | | |
|---|---|---|---|---|---|---|
| | *Note* | Share capital | Statutory reserve | Other reserve | Retained earnings | Total equity |
| Balance at beginning of the period | | 1,000,000,000 | 97,648,519 | 296,000 | 402,144,925 | 1,500,089,444 |
| Net income for the period | | -- | -- | -- | 30,166,762 | 30,166,762 |
| Actuarial loss on end of service benefits | *16* | -- | -- | (163,584) | -- | (163,584) |
| Total comprehensive income for the period | | -- | -- | (163,584) | 30,166,762 | 30,003,178 |
| Transfer to statutory reserve | *18* | -- | 3,016,676 | -- | (3,016,676) | -- |
| Balance at end of the period | | 1,000,000,000 | 100,665,195 | 132,416 | 429,295,011 | 1,530,092,622 |

The accompanying notes from (1) to (26) are an integral part of these interim condensed financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)**
**For the six months period ended 30 June 2021**
*(Amounts in Saudi Riyals)*

| | *Notes* | For the six months ended June 30 **2021** | 2020 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income before zakat and income tax | | **66,528,568** | 33,700,929 |
| ***Adjustments to reconcile net income before zakat and income tax to net cash generated from / (used in) operating activities:*** | | | |
| Depreciation and amortisation | *20* | **2,219,333** | 2,830,528 |
| Amortisation of deferred origination fees | *20* | **1,843,986** | 1,918,637 |
| Impairment loss on other real estate assets | | **60,165** | 2,781,171 |
| (Reversal of) / provision for expected credit losses | *4, 9* | **(11,628,386)** | 15,036,879 |
| Provision for end of service benefits | *16* | **848,549** | 943,525 |
| Amortization of discount on lease liability | | **191,216** | 161,728 |
| *Net (increase) / decrease in operating assets:* | | | |
| Other receivables, net | | **6,017,096** | 2,391,547 |
| Prepaid expenses and other assets, net | | **3,354,188** | (4,167,757) |
| Due from related parties | | **(546,558)** | 62,292 |
| Advances to property owners | | **(10,204,484)** | (13,669,510) |
| Investments in finance lease | | **(5,528,450)** | (89,214,944) |
| Murabaha financing | | **(4,671,943)** | -- |
| *Net increase / (decrease) in operating liabilities:* | | | |
| Accounts payable | | **(1,888,603)** | 4,141,264 |
| Accrued expenses and other liabilities | | **3,774,305** | 1,021,305 |
| Advance lease rentals | | **4,970,452** | 5,220,697 |
| **Net cash generated from / (used in) operations** | | **55,339,434** | (36,841,709) |
| Zakat and income tax paid | *13* | **(13,348,768)** | -- |
| End of service benefits paid | *16* | **(329,615)** | (624,236) |
| Deferred origination fees paid | | **(62,335)** | (163,804) |
| **Net cash generated from / (used in) operating activities** | | **41,598,716** | (37,629,749) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | | **(550,508)** | (1,352,649) |
| Purchase of intangible assets | | **(147,659)** | (22,500) |
| **Net cash used in investing activities** | | **(698,167)** | (1,375,149) |
| **FINANCING ACTIVITIES** | | | |
| Additions in Tawarruq financing facilities | | **103,243,893** | 151,361,088 |
| Repayment of Tawarruq financing facilities | | **(176,246,689)** | (74,434,156) |
| Payment of principal portion of lease liability | | **(2,616,790)** | (2,365,896) |
| **Net cash (used in) / generated from financing activities** | | **(75,619,586)** | 74,561,036 |
| **Net (decrease) / increase in cash and cash equivalents** | | **(34,719,037)** | 35,556,138 |
| Cash and cash equivalents at beginning of the period | | **142,327,982** | 54,199,589 |
| **Cash and cash equivalents at end of the period** | | **107,608,945** | 89,755,727 |
| **Supplemental cash information** | | | |
| Financing income received | | **136,970,390** | 145,309,227 |
| Financing charges paid | | **37,175,297** | 49,572,930 |
| **Supplemental non-cash information** | | | |
| Capital work in progress transferred to intangible assets and property and equipment | | **1,072,797** | 433,995 |

The accompanying notes from (1) to (26) are an integral part of these interim condensed financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**
**For the six months period ended 30 June 2021**
(*Amounts in Saudi Riyals*)

## 1. ACTIVITIES

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

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

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

## 2. BASIS OF PREPARATION

### a) *Statement of compliance*

The interim condensed financial statements of the Company as at and for the period ended 30 June 2021 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"). The interim condensed 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 2020.

The financial statements of the Company as at and for the year ended 31 December 2020, were prepared in accordance with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA.

### 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") and end of service benefits liability which is measured at present value of future obligations using the projected unit credit method.

The interim condensed statement of financial position is presented in the order of liquidity.

### c) *Functional and presentation currency*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements as at and for the year ended 31 December 2020 except as explained below:

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**
**For the six months period ended 30 June 2021**
(*Amounts in Saudi Riyals*)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Murabaha financing**

Murabaha is an agreement whereby the Company sells to a customer an asset, which the Company has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Murabaha sale contracts include the total of future instalment payments on the Murabaha agreement (Murabaha sale contract receivable). The difference between the Murabaha sale contracts receivable and the cost of the asset sold, is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the Murabaha sale contracts receivable.

## 4. OTHER RECEIVABLES, NET

| | *Note* | **30 June 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|---|
| Insurance claims receivable on decease-case leases, net | *4.1* | **35,670,569** | 34,459,222 |
| VAT receivable | | **8,324,498** | 12,412,000 |
| Legal claim | | **7,512,577** | 8,862,577 |
| Due from REDF | | **1,294,195** | 2,882,103 |
| Due from SRC | *4.2* | **129,544** | 68,081 |
| Employees' advances and receivables | | **129,303** | 132,999 |
| | | **53,060,686** | 58,816,982 |
| Allowance for provision for legal claim | | **(3,212,577)** | (3,212,577) |
| | | **49,848,109** | 55,604,405 |

4.1 The insurance claims receivable on decease-case lease, net comprise of the following:

| | **30 June 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Insurance claims receivable on decease-case leases | **50,804,565** | 49,854,017 |
| Allowance for provision for ECL | **(15,133,996)** | (15,394,795) |
| | **35,670,569** | 34,459,222 |

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

4.2 On 30 March 2021, SRC and the Company entered into Portfolio Purchase Agreement whereby the Company sold investments in finance lease with a carrying value of SR 92.78 million for SR 94.96.million and recognized a gain of SR 2.08 million presented as Other income in the interim condensed statement of income. The proceeds from sale were collected during Q2 2021.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**
**For the six months period ended 30 June 2021**
(*Amounts in Saudi Riyals*)

## 5. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprise of the following:

| | **30 June 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Prepaid financing facility fees (GIB) | **3,086,875** | 3,510,625 |
| Prepaid insurance | **1,595,463** | 1,091,924 |
| Advance tax | **1,116,104** | 3,849,870 |
| Prepaid software maintenance | **940,243** | 1,098,044 |
| Prepaid financing facility fees (IFC) | **939,856** | 1,096,504 |
| Sijil registration charges | **209,250** | 419,400 |
| Others | **924,907** | 1,100,519 |
| | **8,812,698** | 12,166,886 |

## 6. ADVANCES TO PROPERTY OWNERS

This balance represents the amounts of certified cheques issued under the property owners' name, for the purchase of properties of the Company's Ijara and Murabaha contracts (approved deals) and for which the transfer of title deeds, in the name of the Company and customers, respectively, is in process. These certified cheques are submitted by official Company representatives directly at the Registration office at the time of title deed transfer. Risk and reward of such Ijarah and Murabaha contracts are not transferred as at the date of statement of financial position.

## 7. RELATED PARTY TRANSACTIONS

The Company's shareholders and all their affiliates are considered as related party of the Company. 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 | Shareholder |
| International Financial Corporation | Shareholder |
| Kingdom Installment Company | Shareholder |
| Dar Al Arkan | Shareholder |
| Tharwat Alasool Real Estate Company | Affiliate |

The significant transactions during the period are as follows:

| | **30 June 2021 (Unaudited)** | 30 June 2020 (Unaudited) |
|---|---|---|
| Tawaruq financing charges (ANB) | **24,026,868** | 33,680,670 |
| Residential unit purchased (Dar Alarkan) | **12,847,464** | 13,232,854 |
| Service fees, net | **2,857,469** | 3,777,511 |
| Tawaruq financing charges (IFC) | **1,928,888** | 3,952,243 |
| Rent charged by an affiliate | **1,089,970** | 1,089,970 |
| Deferred origination fees | **62,335** | 163,804 |

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**
**For the six months period ended 30 June 2021**
(*Amounts in Saudi Riyals*)

## 7. RELATED PARTY TRANSACTIONS (CONTINUED)

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

| | 30 June 2021 (Unaudited) | 30 December 2020 (Audited) |
|---|---|---|
| Loan obtained from a shareholder (ANB) (Note 15) | **1,799,877,053** | 1,832,298,936 |
| Loan obtained from a shareholder (IFC) (Note 15) | **125,145,139** | 140,784,894 |
| Deferred origination fees (Note 10) | **20,245,950** | 22,027,601 |
| Prepaid financing facility fees (IFC) | **939,856** | 1,096,504 |
| Due from a related party related to service fees and advanced expenses to ANB | **1,179,935** | 633,377 |

**Compensation of key management personnel**

KMP are those having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Company's KMP includes the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer.

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

| | 30 June 2021 (Unaudited) | 30 June 2020 (Unaudited) |
|---|---|---|
| Salaries | **960,000** | 1,230,906 |
| End of service benefits | **80,000** | 102,576 |
| Other allowances | **292,105** | 547,399 |
| | **1,332,105** | 1,880,881 |

## 8. INVESTMENT

On 17 December 2017, the Company purchased 89,285 shares of Saudi Financial Lease Contract Registry Company ("Sijil") at SR 10 each, amounting to SR 892,850. The Company has elected to classify this equity investment as FVOCI. As at the date of these interim condensed financial statements, the carrying value of this investment is not materially different to its fair value.

## 9. INVESTMENTS IN FINANCE LEASE, NET

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

| | 30 June 2021 (Unaudited) | 31 December 2020 (Audited) |
|---|---|---|
| Minimum lease payments | | |
| Performing leases | **6,358,410,695** | 6,390,357,327 |
| Non-performing leases | **232,695,653** | 276,583,431 |
| **Investments in finance lease, gross** | **6,591,106,348** | 6,666,940,758 |
| Less: Unearned finance income | **(2,308,542,195)** | (2,385,371,981) |
| **Investments in finance lease before impairment** | **4,282,564,153** | 4,281,568,777 |
| Less: Allowance for expected credit losses | **(71,056,022)** | (82,430,269) |
| **Investments in finance lease, net** | **4,211,508,131** | 4,199,138,508 |
| **Less:** Current portion | **(286,933,053)** | (283,570,327) |
| **Less:** Accrued finance lease receivable | **(45,973,408)** | (42,285,101) |
| Non-current portion | **3,878,601,670** | 3,873,283,080 |

Total number of outstanding lease agreements as at 30 June 2021 is 7,125 (31 December 2020: 7,041).

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**
**For the six months period ended 30 June 2021**
(*Amounts in Saudi Riyals*)

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

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

| | **30 June 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Opening balance, as reported | **82,430,269** | 78,226,322 |
| (Reversal) / charge for the period | **(11,374,247)** | 4,203,947 |
| **Closing balance** | **71,056,022** | 82,430,269 |

9.2 The credit quality of investments in finance lease as at 30 June 2021 (unaudited) is as follows:

| | **12-month ECL** | **Lifetime ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
|---|---|---|---|---|
| Gross carrying amount | **3,720,479,538** | **323,153,700** | **238,930,915** | **4,282,564,153** |
| Allowance for expected credit losses | **(2,562,075)** | **(10,952,540)** | **(57,541,407)** | **(71,056,022)** |
| Net carrying amount | **3,717,917,463** | **312,201,160** | **181,389,508** | **4,211,508,131** |

The credit quality of investments in finance lease as at 31 December 2020 (audited) is as follows:

| | 12-month ECL | Lifetime ECL not credit impaired | Lifetime ECL credit impaired | Total |
|---|---|---|---|---|
| Gross carrying amount | 3,623,423,812 | 382,231,466 | 275,913,499 | 4,281,568,777 |
| Allowance for expected credit losses | (2,154,938) | (13,008,217) | (67,267,114) | (82,430,269) |
| Net carrying amount | 3,621,268,874 | 369,223,249 | 208,646,385 | 4,199,138,508 |

9.3 Maturity profile of the lease payments is as follows:

| | **30 June 2021 (unaudited)** | | | 31 December 2020 (audited) |
|---|---|---|---|---|
| **Year** | **Minimum lease payments** | **Unearned finance income** | **Investments in finance lease** | Investments in finance lease |
| Within one year | **589,104,148** | **256,197,687** | **332,906,461** | 325,855,428 |
| Year two | **531,626,538** | **236,980,788** | **294,645,750** | 292,373,314 |
| Year three | **513,562,040** | **217,505,458** | **296,056,582** | 296,323,299 |
| Year four | **489,738,250** | **198,176,659** | **291,561,591** | 293,994,391 |
| Year five and later | **4,467,075,372** | **1,399,681,603** | **3,067,393,769** | 3,073,022,345 |
| | **6,591,106,348** | **2,308,542,195** | **4,282,564,153** | 4,281,568,777 |

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**
**For the six months period ended 30 June 2021**
(*Amounts in Saudi Riyals*)

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

9.4 Expected credit loss allowance on investments in finance lease as at 30 June 2021 (unaudited) is as follows:

| | | **Lifetime ECL** | | |
|---|---|---|---|---|
| **Loss Allowance** | **12-month ECL** | **Not credit Impaired** | **Credit impaired** | **Total** |
| Opening balance at 1 January 2021 | **2,154,938** | **13,008,217** | **67,267,114** | **82,430,269** |
| Transfer to 12 Month ECL | **104,088** | **(92,105)** | **(11,983)** | **--** |
| Transfer to lifetime ECL (not credit impaired) | **(69,171)** | **492,103** | **(422,932)** | **--** |
| Transfer to lifetime ECL (credit impaired) | **(2,268)** | **(425,825)** | **428,093** | **--** |
| Net charge / (reversal) for the period | **374,488** | **(2,029,850)** | **(9,718,885)** | **(11,374,247)** |
| Closing balance as at 30 June 2021 | **2,562,075** | **10,952,540** | **57,541,407** | **71,056,022** |

Expected credit loss allowance on investments in finance lease as at 31 December 2020 (audited) is as follows:

| | | Lifetime ECL | | Total |
|---|---|---|---|---|
| Loss allowance | 12 Month ECL | Not credit Impaired | Credit impaired | |
| Opening balance at 1 January 2020 | 989,755 | 28,117,460 | 49,119,107 | 78,226,322 |
| Transfer to 12 Month ECL | 92,275 | (87,781) | (4,494) | -- |
| Transfer to lifetime ECL (not credit impaired) | (103,888) | 437,837 | (333,949) | -- |
| Transfer to lifetime ECL (credit impaired) | (11,025) | (4,690,056) | 4,701,081 | -- |
| Net charge / (reversal) for the period | 1,187,821 | (10,769,243) | 13,785,369 | 4,203,947 |
| Closing balance as of 31 December 2020 | 2,154,938 | 13,008,217 | 67,267,114 | 82,430,269 |

**SAMA program - customer support on deferral of financing**

During April 2020, the Company has effected payment reliefs, in line with the guidance issued by SAMA to financing companies, by extending the tenor of the applicable investments in finance lease for six months with no additional costs to be borne by the customer. The accounting impact of this has been assessed and is treated as per the requirements of IFRS 9 as modification in terms of arrangement. The Company has deferred the payments amounting to SR 4.44 million for customers in 2020 and accordingly has recognised modification loss of SR 2.68 million and unwound SR 80,159 for the year ended 31 December 2020 and SR 69,796 for the period ended 30 June 2021. There had been no deferrals for the period ended 30 June 2021. The impact of these modification losses was presented as part of financing income.

## 10. DEFERRED ORIGINATION FEES

Deferred origination fees comprise of the unamortised portion of commission paid to Arab National Bank, a shareholder for deals originated through the use of its infrastructure, resources and client base.

## 11. ACCOUNTS PAYABLE

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

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## 12. ACCRUED EXPENSES AND OTHER LIABILITIES

| | **30 June 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Employees' related expenses | **9,925,307** | 7,192,528 |
| Accrued IT support charges | **565,875** | -- |
| Provision for maintenance on finance lease contracts | **494,528** | 424,800 |
| Accrued legal and consultation fees | **532,500** | 548,500 |
| Servicing right liability | **325,359** | 774,923 |
| Accrued brokerage fees | **94,613** | 57,738 |
| Others | **1,161,838** | 327,226 |
| Total | **13,100,020** | 9,325,715 |

## 13. PROVISION FOR ZAKAT AND INCOME TAX

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

| | **30 June 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Balance, beginning of the period / year | **24,644,795** | 27,978,017 |
| Zakat and income tax expense for the current period / year | **6,485,958** | 12,734,691 |
| Income tax for the prior periods | **914,495** | -- |
| Payment during the period / year | **(13,348,768)** | (16,067,913) |
| Balance, end of the period / year | **18,696,480** | 24,644,795 |

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

On 3 February 2021, the Company received income tax assessment from GAZT for the years 2014 and 2015 for SR 0.91 million. The Company has settled the assessment on 18 March 2021.

## 14. DEFERRED TAX

| | **30 June 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Balance at the beginning of the period / year | **4,837,338** | 4,563,723 |
| Movement for the period / year | **(368,919)** | 273,615 |
| Balance at end of the period / year | **4,468,419** | 4,837,338 |

The Company's deferred tax assets arise primarily from employees' end of service benefits liability and expected credit losses.

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## 15. TAWARRUQ FINANCING FACILITIES

| | **30 June 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Current portion of facilities | **635,437,595** | 1,091,739,856 |
| Non-current portion of facilities | **2,108,199,493** | 1,714,657,021 |
| Total excluding financial charges | **2,743,637,088** | 2,806,396,877 |
| Accrued Tawarruq financing charges | **3,243,893** | 13,486,900 |
| | **2,746,880,981** | 2,819,883,777 |

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

| | **30 June 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Arab National Bank | **1,799,877,053** | 1,832,298,936 |
| Gulf International Bank | **403,644,309** | 392,920,322 |
| International Finance Corporation | **125,145,139** | 140,784,894 |
| National Commercial Bank | **367,810,336** | 377,881,841 |
| Saudi Real Estate Refinance Company | **50,404,144** | 75,997,784 |
| | **2,746,880,981** | 2,819,883,777 |

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 6 months SAIBOR. Facility repayment schedule is based on equal semi-annual or quarter payment.

In response to COVID-19, SAMA launched the *Private Sector Financing Support Program* ("PSFSP") in March 2020. As part of the deferred payments program, one of the programs under PSFSP, the management notified the Company's bank lenders during 2020 to defer payments amounting to SR 352.19 million for six months on its lending facilities by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months without increasing the facility tenor. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. For the year ended 31 December 2020, the Company has recognised SR 6.60 million of modification gains. Out of which SR 5.58 million have been unwound for the year ended 31 December 2020 and SR 1.02 have been unwound during the period ended 30 June 2021.

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## 16. END OF SERVICES 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 are as follows:

| | **30 June 2021 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Defined benefit obligation at the beginning of the period / year | **8,371,800** | 9,376,906 |
| Current service cost | **759,080** | 1,594,609 |
| Interest cost on defined benefit obligation | **89,469** | 292,441 |
| Benefits paid to outgoing employees | **(329,615)** | (2,030,696) |
| Actuarial losses / (gains) on obligation | **134,910** | (861,460) |
| Defined benefit obligation at the end of the period / year | **9,025,644** | 8,371,800 |

## 17. SHARE CAPITAL

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

The ownership of the Company's share capital is as follows:

| | **No. of shares** | **Share capital** |
|---|---|---|
| Arab National Bank | 40,000,000 | 400,000,000 |
| Dar Al Arkan Real Estate Development Company | 15,000,000 | 150,000,000 |
| Kingdom Instalment Company | 9,000,000 | 90,000,000 |
| Youssef bin Abdullah Al Shalash | 8,000,000 | 80,000,000 |
| Tareq Mohammad Al Jarallah | 6,000,000 | 60,000,000 |
| Hathlool Bin Saleh Al Hathlool | 6,000,000 | 60,000,000 |
| International Finance Corporation | 5,000,000 | 50,000,000 |
| Abdulatif Bin Abdullah Al Shalash | 5,000,000 | 50,000,000 |
| Inma Almadaen Company | 4,000,000 | 40,000,000 |
| Daem Al Khaleej Company | 2,000,000 | 20,000,000 |
| **Total** | **100,000,000** | **1,000,000,000** |

## 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.

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## 19. SELLING AND MARKETING EXPENSES

| | For the three months ended June 30 (unaudited) | | For the six months ended June 30 (unaudited) | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Sales and title commission | **895,380** | 881,776 | **2,239,079** | 1,780,973 |
| Evaluation fees | **837,950** | 556,800 | **2,096,028** | 1,358,400 |
| Origination expenses | **864,901** | 916,637 | **1,843,986** | 1,918,636 |
| Marketing expenses | **120,105** | 1,153,066 | **159,125** | 1,760,666 |
| Others | **69,000** | 75,000 | **138,000** | 155,521 |
| | **2,787,336** | 3,583,279 | **6,476,218** | 6,974,196 |

## 20. GENERAL AND ADMINISTRATIVE EXPENSES

| | For the three months ended June 30 (unaudited) | | For the six months ended June 30 (unaudited) | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Employees' salaries and other benefits | **13,480,964** | 12,187,167 | **26,352,811** | 24,064,425 |
| Insurance expenses | **6,009,755** | 3,859,938 | **12,043,664** | 7,718,725 |
| Consultation fees | **2,372,119** | 1,174,619 | **3,286,210** | 3,097,334 |
| Depreciation and amortisation | **1,316,095** | 1,538,882 | **2,322,300** | 2,955,065 |
| Software support charges | **1,055,096** | 476,155 | **1,484,216** | 808,024 |
| Collection commission | **701,400** | 577,929 | **1,362,050** | 1,177,514 |
| VAT expense | **660,786** | 151,915 | **1,761,387** | 252,809 |
| Telecommunication expenses | **222,052** | 210,000 | **432,052** | 434,980 |
| Bank charges | **102,290** | 110,184 | **207,450** | 243,203 |
| Printing and stationery | **46,300** | (12,548) | **95,283** | 67,621 |
| Travel expenses | **41,036** | 20,680 | **165,792** | 196,910 |
| Recruitment related expenses | **40,398** | 58,500 | **78,321** | 130,797 |
| Withholding tax | **31,007** | 3,779 | **42,589** | 11,287 |
| Repairs and maintenance | **29,098** | 177,023 | **116,465** | 302,745 |
| Impairment loss on other real estate assets | **--** | 218,172 | **60,165** | 2,781,171 |
| Others | **230,224** | 850,294 | **840,233** | 1,144,667 |
| | **26,338,620** | 21,602,689 | **50,650,988** | 45,387,277 |

## 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 investments in finance leases, net and murabaha financing.

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## 21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

***Fair value hierarchy***

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

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

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

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

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost, except for equity investment which is classified as FVOCI. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance leases. The fair value of net investment in finance lease is determined using discounted cash flow technique using credit adjusted SIBOR. The expected rates are determined based on the risk profile of lease receivables and current commission rates.

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. Other financial liabilities such as accounts payable and accrued expenses and other liabilities approximate their fair values due to them being short-term in nature. There had been no inter-level transfers during the year / period.

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

| | | **30 June 2021 (Unaudited)** | | | |
|---|---|---|---|---|---|
| | **Carrying value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Investments in finance leases, net** | **4,211,508,131** | **--** | **--** | **4,275,592,019** | **4,275,592,019** |
| **Murabaha financing** | **4,671,943** | | | **5,219,903** | **5,219,903** |
| **Investments** | **892,850** | | | **892,850** | **892,850** |
| **Total** | | **--** | **--** | **4,281,704,772** | **4,281,704,772** |

| | | 31 December 2020 (Audited) | | | |
|---|---|---|---|---|---|
| | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| Investments in finance leases, net | 4,199,138,508 | -- | -- | 4,458,298,049 | 4,458,298,049 |
| Investments | 892,850 | | | 892,850 | 892,850 |
| Total | | -- | -- | 4,459,190,899 | 4,459,190,899 |

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## 22. CAPITAL MANAGEMENT

The Company manages and controls its capital structure and liquidity needs in order to safeguard the Company's ability to meet its future obligations and growing plans and continue as a going concern. The Company monitors the adequacy of its capital using below measures:

| | **30 June 21 (Unaudited)** | 31 December 2020 (Audited) |
|---|---|---|
| Total capital ratio % | **22.27%** | 22.53% |

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

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

## 23. COMMITMENT AND CONTINGENCIES

The Company faces during its normal activity some lawsuits and other claims related to the nature of its activity. However, significant claims are not expected to result from the outstanding lawsuits as at the financial statements date.

## 24. SUBSEQUENT EVENTS

There have been no events subsequent to the reporting date that would require adjustment nor disclosure to the interim condensed financial statements.

## 25. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform with the current period's presentation.

## 26. APPROVAL OF THE BOARD OF DIRECTORS

These financial statements were approved by the Board of Directors on 3 August 2021 (corresponding to 24 Dhul Hijjah 1442H).

SHL

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SAUDI HOME LOANS

# Saudi Home Loans
# Company Prospectus

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