

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM FINANCIAL STATEMENTS
(Unaudited)
For the three-month and nine-month periods ended
30 September 2019
together with the
Independent Auditors' Report



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Independent Auditor's Report On Review Of Condensed Interim Financial Statements

To the Shareholder of Saudi Real Estate Refinance Company

Introduction

We have reviewed the accompanying condensed interim financial statements of Saudi Real Estate Refinance Company ("the Company"), which comprises:

- the condensed interim statement of financial position as at 30 September 2019;
- the condensed interim statement of profit or loss and other comprehensive income for the three-month and nine-month periods ended 30 September 2019;
- the condensed interim statement of changes in shareholder's equity for the nine-month period ended 30 September 2019;
- the condensed interim statement of cash flows for the nine-month period ended 30 September 2019; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2019 condensed interim financial statements of Saudi Real Estate Refinance Company are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Dr. Abdullah Hamad Al Fozan
License No: 348

Riyadh on: 29 Safar 1441H
Corresponding to: 28 October 2019



SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
As at 30 September 2019
(Saudi Arabian Riyals)

	<u>Notes</u>	30 September 2019 (Unaudited)	31 December 2018 (Audited)
<u>ASSETS</u>			
Cash and cash equivalents	4	375,869,029	880,632,477
Murabaha receivables, net	5	526,853,557	221,156,755
Ijara receivables, net	6	1,319,730,880	632,405,628
Prepayments and other current assets		8,567,181	14,291,197
Property and equipment		4,782,017	2,920,521
Intangible assets		6,191,922	9,658,685
Right-of-use asset	7	4,571,283	--
TOTAL ASSETS		<u>2,246,565,869</u>	<u>1,761,065,263</u>
<u>LIABILITIES AND SHAREHOLDER'S EQUITY</u>			
Trade and other payables	8	18,519,361	23,251,748
Debt securities issued	9	756,076,961	250,684,820
Lease liability	7	3,922,203	--
TOTAL LIABILITIES		<u>778,518,525</u>	<u>273,936,568</u>
Share capital		1,500,000,000	1,500,000,000
Accumulated losses		(31,952,656)	(12,871,305)
TOTAL SHAREHOLDER'S EQUITY		<u>1,468,047,344</u>	<u>1,487,128,695</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u>2,246,565,869</u>	<u>1,761,065,263</u>

The accompanying notes 1 to 13 form an integral part of these condensed interim financial statements.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME (UNAUDITED)
For the three-month and nine-month periods ended 30 September 2019
(Saudi Arabian Riyals)

	For the three- month period ended 30 September 2019	For the three- month period ended 30 September 2018	For the nine- month period ended 30 September 2019	For the nine- month period ended 30 September 2018
<i>Notes</i>				
REVENUE				
Income from Murabaha receivables	2,345,545	3,836,826	6,267,558	17,745,000
Income from Ijara receivables	14,784,370	3,713,629	38,284,555	8,495,768
Special commission expense on debt securities issued	(7,943,750)	--	(20,845,833)	--
Total revenue	9,186,165	7,550,455	23,706,280	26,240,768
OPERATING EXPENSES				
General and administrative expenses	10 (16,038,553)	(9,596,167)	(52,097,770)	(26,639,476)
Servicing fee	(2,273,992)	(1,016,478)	(4,936,987)	(1,016,478)
Advertising and marketing expenses	(498,333)	(322,712)	(1,890,297)	(1,473,982)
Impairment charge for credit losses on Ijara receivables	6 (1,527,935)	(859,640)	(3,833,128)	(2,787,122)
Total operating expenses for the period	(20,338,813)	(11,794,997)	(62,758,182)	(31,917,058)
Operating loss profit for the period	(11,152,648)	(4,244,542)	(39,051,902)	(5,676,290)
NON-OPERATING INCOME				
Income from bank deposits	5,755,551	2,742,838	19,970,551	6,420,174
(Loss) / profit for the period	(5,397,097)	(1,501,704)	(19,081,351)	743,884
Other comprehensive income	--	--	--	--
Total comprehensive (loss) / income	(5,397,097)	(1,501,704)	(19,081,351)	743,884

The accompanying notes 1 to 13 form an integral part of these condensed interim financial statements.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
**CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDER'S
EQUITY (UNAUDITED)**
For the nine-month period ended 30 September 2019
(Saudi Arabian Riyals)

***For the nine-month period ended
30 September 2019***

	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at 1 January 2019	1,500,000,000	(12,871,305)	1,487,128,695
Total comprehensive loss	--	(19,081,351)	(19,081,351)
Balance at 30 September 2019	<u>1,500,000,000</u>	<u>(31,952,656)</u>	<u>1,468,047,344</u>

***For the nine-month period ended
30 September 2018***

Balance at 1 January 2018	1,500,000,000	(13,347,045)	1,486,652,955
Total comprehensive income	--	743,884	743,884
Balance at 30 September 2018	<u>1,500,000,000</u>	<u>(12,603,161)</u>	<u>1,487,396,839</u>

The accompanying notes 1 to 13 form an integral part of these condensed interim financial statements.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
For the nine-month period ended 30 September 2019
(Saudi Arabian Riyals)

	<u>Notes</u>	For the nine- month period ended 30 September 2019	For the nine- month period ended 30 September 2018
Cash flows from operating activities:			
Net (loss) / profit for the period		(19,081,351)	743,884
<i>Non-cash adjustments to reconcile net (loss) / profit for the period to net cash used in operating activities:</i>			
Depreciation and amortization	10	5,587,921	974,024
Impairment charge for credit losses	6	3,833,128	2,787,122
Special commission expense		20,845,833	--
		<u>11,185,531</u>	<u>4,505,030</u>
<i>Changes in:</i>			
Murabaha receivables		(305,696,802)	(232,249,355)
Ijara receivables		(691,158,380)	(405,474,137)
Prepayments and other current assets		5,724,016	(1,696,221)
Trade and other payables		(4,732,387)	(7,207,825)
Net cash used in operating activities		<u>(984,678,022)</u>	<u>(642,122,508)</u>
Cash flows from investing activities:			
Additions to property and equipment		(3,474,734)	(547,656)
Additions to intangible assets		--	(1,534,997)
Cash used in investing activities		<u>(3,474,734)</u>	<u>(2,082,653)</u>
Cash flows from financing activities:			
Proceed from issuance of debt securities		500,000,000	--
Interest paid on debt securities		(15,453,692)	--
Lease liability paid		(1,157,000)	--
Cash generated from financing activities		<u>483,389,308</u>	<u>--</u>
Net decrease in cash and cash equivalents		<u>(504,763,448)</u>	<u>(644,205,161)</u>
Cash and cash equivalents at beginning of the period		880,632,477	1,397,686,771
Cash and cash equivalents at end of the period		<u>375,869,029</u>	<u>753,481,610</u>

The accompanying notes 1 to 13 form an integral part of these condensed interim financial statements.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
For the nine-month period ended 30 September 2019
(Saudi Arabian Riyals)

1. THE COMPANY AND THE NATURE OF OPERATIONS

Saudi Real Estate Refinance Company (the "Company" or "SRC") is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration ("CR") No.1010469391 issued in Riyadh on 28 Jumada II 1438H (corresponding to 27 March 2017). The Company was granted a full license by Saudi Arabian Monetary Authority (SAMA) to operate as a mortgage finance company with license number 201709/عش/48 dated 1 Muharram 1439H (corresponding to 21 September 2017).

The objective of the Company is to develop the housing finance market in the Kingdom of Saudi Arabia by enabling the financial institutions to offer long-term and short-term financing solutions to home buyers.

The registered office of the Company is as follows:

Saudi Real Estate Refinance Company
Ground Floor, Unit 09, Riyadh Front Compound
8907- King Khaled International Airport
Riyadh 13413 - 3727
Kingdom of Saudi Arabia

2. BASIS OF PREPARATION

a) *Statement of compliance*

The condensed interim financial statements of the Company have been prepared in accordance with 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 Certified Public Accountants ("SOCPA").

The financial statements of the Company as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with IAS 34 and the International Financial Reporting Standards ("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" in so far as these relate to zakat and income tax).

On 18 July 2019, SAMA instructed the Company to account for Zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and with the other standards and pronouncements that are issued by SOCPA (collectively referred as "IFRS").

Accordingly, the Company changed its accounting policy in line with IAS 8 as disclosed in note 3.1.

These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited financial statements for the year ended 31 December 2018.

b) *Basis of measurement*

These condensed interim financial statements have been prepared under the historical cost convention.

SAUDI REAL ESTATE REFINANCE COMPANY
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(Saudi Arabian Riyals)

2. BASIS OF PREPARATION (CONTINUED)

c) *Functional and presentation currency*

These financial statements are presented in Saudi Arabian Riyals (“SAR”), which is the Company’s functional currency. The financial information presented in SAR is in full amounts, except as indicated.

d) *Order of liquidity*

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018, except for the changes as explained below.

3.1 *Change in accounting for Zakat*

As a result of the issuance of the latest instructions from SAMA dated 18 July 2019, the basis of preparation has changed from the period ended 30 June 2019. Accordingly, these financial statements for the period ended 30 September 2019 reflect this SAMA instruction. Previously, Zakat and income tax were required to be recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the Zakat and income tax shall be recognized in the statement of income. This change has no impact on the Company’s financial statement because the Company is not subject to Zakat in accordance with the regulations of the General Authority of Zakat and Tax (the “GAZT”) as applicable in the Kingdom of Saudi Arabia, as it is wholly owned by the Public Investment Fund (“the Shareholder”).

3.2 *IFRS 16 Leases*

The Company has adopted IFRS 16 Leases from January 1, 2019; there are also amendments to accounting standards that become applicable for annual reporting periods commencing on or after 1 January 2019. Adoption of IFRS 16 and other amendments did not require retrospective adjustments; however, there are changes in accounting policies due to adoption of IFRS 16 which are mentioned below.

IFRS 16 replaces 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 Involving the Legal Form of a Lease’.

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessor accounting remains unchanged – i.e. lessors continue to classify leases as finance or operating leases.

Initial recognition

Assets and liabilities arising from a lease are initially measured on a present value basis.

i. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

SAUDI REAL ESTATE REFINANCE COMPANY
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(Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 *IFRS 16 Leases (Continued)*

- ii. Lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
 - variable lease payments that are based on an index or a rate;
 - amounts expected to be payable by the lessee under residual value guarantees;
 - the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
 - payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Subsequent measurement

Right-of-use assets

The Company applies the cost model, and measures right-of-use assets at initial recognition value:

- 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

After the commencement date, the Company measures the lease liability by:

- a) Increasing the carrying amount to reflect interest on the lease liability;
- b) Reducing the carrying amount to reflect the lease payments made; and
- c) Re-measuring the carrying amount to reflect any re-assessment or lease modification.

4. CASH AND CASH EQUIVALENTS

	30 September 2019 (Unaudited)	31 December 2018 (Audited)
Cash in hand	3,188	303
Cash at bank		
- Current accounts	8,668,208	37,811,554
- Call deposits	367,197,633	592,820,620
- Short term placement	--	250,000,000
	<u>375,869,029</u>	<u>880,632,477</u>

5. MURABAHA RECEIVABLES, NET

	30 September 2019 (Unaudited)	31 December 2018 (Audited)
Gross Murabaha receivables	529,951,029	222,253,214
Less: Unearned income	<u>(3,097,472)</u>	<u>(1,096,459)</u>
Murabaha receivables, net	<u>526,853,557</u>	<u>221,156,755</u>

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(Saudi Arabian Riyals)

5. MURABAHA RECEIVABLES, NET (CONTINUED)

- 5.1 The Company has entered into a facility agreement dated 17 January 2018 with a local finance company for a short-term Murabaha financing facility amounting to SAR 750 million. Under the agreement, the Company has disbursed various amounts, totaling to SAR 375 million (31 December 2018: SAR 150 million) with term periods of 3 to 6 months each. Further, these drawdowns carry profit rates of 3.74%. As at the period-end, the total Murabaha receivable is neither past due nor impaired.
- 5.2 The Company had entered into a facility agreement dated 20 December 2017 with another local finance company for a short-term Murabaha financing facility amounting to SAR 850 million. Under the agreement, the Company has disbursed various amounts, totaling to SAR 150 million (31 December 2018: SAR 70 million) with term periods of 3 to 6 months each. Further, these drawdowns carry varying profit rates from 3.69% to 3.96%. As at the period-end, the total Murabaha receivable is neither past due nor impaired.
- 5.3 The Company in the ordinary course of its Murabaha financing holds collaterals as security to mitigate credit risk. These collaterals mostly include promissory notes and rights to proceeds from certain Ijara receivables.

6. IJARA RECEIVABLES, NET

	30 September 2019 (Unaudited)	31 December 2018 (Audited)
Gross Ijara receivables	1,975,007,413	958,929,464
Less: Unearned income	(647,396,697)	(322,477,128)
	1,327,610,716	636,452,336
Less : Impairment charge for credit losses	(7,879,836)	(4,046,708)
Ijara receivables, net	1,319,730,880	632,405,628

- 6.1 During the nine-month period ended 30 September 2019, the Company purchased Ijara receivables portfolios from certain local banks and financing companies.

Under the terms of the purchase, the Company acquired rights, titles, interest and benefits in the Ijara receivables portfolios. As a result, the associated risk and rewards together with the control had been passed onto the Company.

- 6.2 The following table shows reconciliations from the opening to the closing balance of the allowance for expected credit losses for Ijara receivables:

	30 September 2019 (Unaudited)			
	12 month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired	Total
Balance at 1 January	2,698,619	686,508	661,581	4,046,708
Net movement	1,101,184	2,882,234	(150,290)	3,833,128
Balance as at 30 September	3,799,803	3,568,742	511,291	7,879,836

	31 December 2018 (Audited)			
	12 month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired	Total
Balance at 1 January	-	-	-	-
Net movement	2,698,619	686,508	661,581	4,046,708
Balance as at 31 December	2,698,619	686,508	661,581	4,046,708

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(Saudi Arabian Riyals)

6. IJARA RECEIVABLES, NET (CONTINUED)

6.3 The credit quality of Ijara receivables, "before impairment charge", is as follows:

	30 September 2019 (Unaudited)	31 December 2018 (Audited)
Neither past due nor impaired	1,263,593,662	615,654,000
Past due but not impaired		
- 31 - 60 days	48,223,518	13,683,897
- 61 - 90 days	9,622,247	1,412,135
Impaired	6,171,289	5,702,304
	<u>1,327,610,716</u>	<u>636,452,336</u>

7. RIGHT-OF-USE ASSET

During 2019, the Company entered into a 5-year lease contract for a new office premises. In this respect, the Company has recognized a right-of-use asset amounting to SAR 5.08 million. The corresponding lease liability as of the reporting date amounts to SAR 3.92 million as SAR 1.16 million has been paid in advance at the commencement of the contract. The incremental borrowing rate applied is 4.5%.

8. TRADE AND OTHER PAYABLES

	30 September 2019 (Unaudited)	31 December 2018 (Audited)
Due to the shareholder (note 8.1)	8,455,136	8,455,136
Due to other suppliers (note 8.2)	2,903,218	10,726,132
Accruals for:		
- Service fee	--	2,138,849
- Employees' end-of-service benefits	1,608,052	400,000
- Employee related accruals	190,624	157,314
- Legal and professional services	1,894,000	280,000
- Others	3,468,331	1,094,317
	<u>18,519,361</u>	<u>23,251,748</u>

8.1 This represents amount due in respect of the pre-incorporation expenses incurred on behalf of the Company. The amount includes charges for consultancy services provided to the Company amounting to SAR 7.60 million (31 December 2018: SAR 7.60 million).

8.2 This includes payable to mortgage finance companies amounting to SAR 1.38 million.

9. DEBT SECURITIES ISSUED

On 21 February 2019, the Company issued unsecured, non-convertible unlisted sukuk amounting to SAR 500 million.

As of the reporting date, the Company has issued various sukuk totaling to SAR 750 million with terms ranging from 5 to 10 years. Further, these securities carry profit at fixed rates ranging from 4.01% to 4.66% payable semi-annually.

The Company had issued securities amounting to SAR 250 million as at 31 December 2018, having term period of 5 to 10 years and carrying profit at fixed rates ranging from 4.08% to 4.66% payable semi-annually.

The balance includes accrued special commission expense of SAR 6.07 million (31 December 2018: SAR 0.68 million).

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10. GENERAL AND ADMINISTRATIVE EXPENSES

	For the 3 month period ended 30 September 2019 <u>(Unaudited)</u>	For the 3 month period ended 30 September 2018 <u>(Unaudited)</u>	For the 9 month period ended 30 September 2019 <u>(Unaudited)</u>	For the 9 month period ended 30 September 2018 <u>(Unaudited)</u>
Salaries and other benefits	7,842,874	5,111,770	23,593,671	13,152,894
Legal and professional fees	1,208,271	3,614,484	12,966,286	8,184,811
Travelling expenses	610,642	469,923	712,894	1,280,712
Depreciation and amortization	2,143,960	283,423	5,587,921	974,024
IT consulting	164,802	77,154	1,548,230	1,360,133
Others	4,068,004	39,413	7,688,768	1,686,902
	<u>16,038,553</u>	<u>9,596,167</u>	<u>52,097,770</u>	<u>26,639,476</u>

11. RELATED PARTY TRANSACTIONS

The related parties of the Company include the shareholder, board of directors and its affiliated entities and certain key management personnel. In the ordinary course of its activities, the Company transacts business with its related parties on mutually agreed terms. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

During the normal course of its operations, the Company had the following transactions with the related parties during the period:

<u>Name of related party</u>	<u>Nature of transactions</u>	30 September 2019 <u>(Unaudited)</u>	31 December 2018 <u>(Audited)</u>
Key management personnel and Board of Directors	Salaries, benefits and BOD expenses	7,576,139	8,435,709
Shareholder (Public Investment Fund)	Trade and other payables	8,455,136	8,455,136

12. FAIR VALUES 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

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, Murabaha receivables, Ijara receivables and other current assets. Financial liabilities consist of trade and other payables. At the period / year end, the carrying value of these financial instruments approximate to their fair value.

13. APPROVAL OF FINANCIAL STATEMENTS

The financial statements and their accompanying notes were approved for issue by the Board of Directors on 29 Safar 1441H (corresponding to 28 October 2019).