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

Independent Auditors' Report On Review Of Condensed Interim Financial Statements

To the Shareholders of
Saudi Real Estate Refinance Company
(A Saudi Closed Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Introduction

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

- the condensed statement of financial position as at 30 June 2018;
- the condensed statements of profit or loss and other comprehensive income for the three-month and six-month periods ended 30 June 2018 ;
- the condensed statement of changes in shareholders' equity for the six-month period ended 30 June 2018;
- the condensed statement of cash flows for the six-month period ended 30 June 2018; 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 Standards ("IAS") 34, 'Interim Financial Reporting' as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on this 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.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2018 condensed interim financial statements of Saudi Real Estate Refinance Company are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as modified by SAMA for the accounting of zakat and income tax.

Other Matter

We draw attention to the fact that we have neither audited nor reviewed the accompanying condensed statements of profit or loss and other comprehensive income for the three-month period ended 30 June 2017 and for the period from 27 March 2017 to 30 June 2017, condensed statements of changes in shareholders' equity and cash flows for the period from 27 March 2017 to 30 June 2017, or any of the related notes and accordingly, we do not express an audit opinion or a review conclusion on them.

For KPMG Al Fozan & Partners
Certified Public Accountants

Abdullah Hamad Al Fozan
License No: 348

Al Riyadh: 15 Muharram 1440H
Corresponding to: 25 September 2018

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KPMG Al Fozan & Partners

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Condensed Interim Financial Statements
(Unaudited)
For the three-month and six-month periods ended
30 June 2018

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018
(Saudi Arabian Riyals)

	Notes	30 June 2018 (Unaudited)	31 December 2017 (Audited)
ASSETS			
Cash and cash equivalents	*5*	**616,795,725**	1,397,686,771
Murabaha receivables, net	*6*	**633,971,458**	100,068,030
Ijara receivables, net	*7*	**286,980,234**	-
Prepayments and other current assets		**479,823**	388,535
Property and equipment		**2,906,452**	2,812,053
Intangible assets	*8*	**10,047,132**	8,997,319
TOTAL ASSETS		**1,551,180,824**	1,509,952,708
LIABILITIES AND SHAREHOLDERS' EQUITY			
Trade and other payables	*9*	**62,282,281**	23,299,753
TOTAL LIABILITIES		**62,282,281**	23,299,753
Share capital	*10*	**1,500,000,000**	1,500,000,000
Accumulated losses		**(11,101,457)**	(13,347,045)
TOTAL SHAREHOLDERS' EQUITY		**1,488,898,543**	1,486,652,955
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,551,180,824**	1,509,952,708

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)
For the three-month and six-month periods ended 30 June 2018
(Saudi Arabian Riyals)

	Notes	**For the three-month period ended 30 June 2018**	For the three-month period ended 30 June 2017	**For the six-month period ended 30 June 2018**	For the period from 27 March 2017 (date of commercial registration) to 30 June 2017
REVENUE					
Income from Murabaha receivables		**8,427,318**	-	**13,908,174**	-
Income from Ijara receivables		**4,100,955**	-	**4,782,139**	-
Total revenue		**12,528,273**	-	**18,690,313**	-
OPERATING EXPENSES					
General and administrative expenses	*11*	**(10,359,735)**	-	**(17,043,309)**	-
Advertising and marketing expenses		**(518,980)**	-	**(1,151,270)**	-
Impairment charge for credit losses	*7*	**(506,482)**	-	**(1,927,482)**	-
Total operating expenses for the period		**(11,385,197)**	-	**(20,122,061)**	-
Pre-operating income	*16*	**-**	-	**-**	14,927,292
Pre-operating expenses	*16*	**-**	-	**-**	(24,344,847)
Operating profit / (loss) for the period		**1,143,076**	-	**(1,431,748)**	(9,417,555)
NON-OPERATING INCOME					
Income from bank deposits		**1,287,784**	9,816,692	**3,677,336**	9,816,692
Net profit for the period		**2,430,860**	9,816,692	**2,245,588**	399,137
Other comprehensive income		-	-	-	-
Total comprehensive income		**2,430,860**	9,816,692	**2,245,588**	399,137

The accompanying notes 1 to 18 form an integral part of these condensed interim financial statements.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
For the six-month period ended 30 June 2018
(Saudi Arabian Riyals)

	Notes	**For the six-month period ended 30 June 2018**	For the period from 27 March 2017 (date of commercial registration) to 30 June 2017
Cash flows from operating activities:			
Net profit for the period		**2,245,588**	399,137
Non-cash adjustments to reconcile net profit for the period to net cash (used in) / generated from operating activities:			
Depreciation		**183,036**	-
Amortization		**507,565**	-
Impairment charge for credit losses	*7*	**1,927,482**	-
		4,863,671	399,137
Changes in:			
Murabaha receivables		**(533,903,428)**	-
Ijara receivables	*7*	**(288,907,716)**	-
Prepayments and other current assets		**(91,288)**	-
Trade and other payables		**38,982,528**	-
Net cash (used in) / generated from operating activities		**(779,056,233)**	399,137
Cash flows from investing activities:			
Additions to property and equipment		**(277,435)**	-
Additions to intangible assets		**(1,557,378)**	-
Cash used in investing activities		**(1,834,813)**	-
Cash flows from financing activities:			
Issuance of share capital		**-**	1,500,000,000
Cash generated from financing activities		**-**	1,500,000,000
Net (decrease) / increase in cash and cash equivalents		**(780,891,046)**	1,500,399,137
Cash and cash equivalents at beginning of the period		**1,397,686,771**	-
Cash and cash equivalents at end of the period	*5*	**616,795,725**	1,500,399,137

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
For the six-month period ended 30 June 2018
(Saudi Arabian Riyals)

For the six-month period ended 30 June 2018	**Share capital**	**Accumulated losses**	**Total**
Balance at 1 January 2018	**1,500,000,000**	**(13,347,045)**	**1,486,652,955**
Total comprehensive income	--	**2,245,588**	**2,245,588**
Balance at 30 June 2018	**1,500,000,000**	**(11,101,457)**	**1,488,898,543**
For the period from 27 March 2017 (date of commercial registration) to 30 June 2017			
Issuance of share capital	1,500,000,000	--	1,500,000,000
Total comprehensive income	--	399,137	399,137
Balance at 30 June 2017	1,500,000,000	399,137	1,500,399,137

The accompanying notes 1 to 18 form an integral part of these condensed interim financial statements.

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/ش ع/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
2nd Floor, Building WH 14, ITCC Complex
Said As Salmi Road, Al Nakhil District
Riyadh 12382
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 modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax, which requires, adoption of all International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders' equity under retained earnings.

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 period ended 31 December 2017.

Pursuant to the Company's Articles of Association and Company's Bye Laws, the first financial reporting period of the Company began from 27 March 2017 (the date of the Company's CR) and ended on 31 December 2017. Accordingly, the comparatives in these financial statements are presented for the period from 27 March 2017 (date of commercial registration) to 30 June 2017.

b) *Basis of measurement*

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

c) *Functional and presentation currency*

These interim condensed 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.

2. BASIS OF PREPARATION

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 period ended 31 December 2017 except for the policies explained below. Based on the adoption of new standards as explained in note 4, the following accounting policies are applicable effective 1 January 2018 replacing / amending or adding to the corresponding accounting policies set out in annual financial statements for the period ended 31 December 2017.

a) Policies applicable from 1 January 2018

1. Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”).

Financial Asset at amortised 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 profit on the principal amount outstanding.

Financial Asset at FVOCI

A debt instrument is measured at FVOCI only 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 achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

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 other comprehensive income (“OCI”). This election is made on an investment-by-investment basis.

The Company does not have any debt or equity instrument classified at FVOCI, and thus this does not apply to the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Policies applicable from 1 January 2018 (continued)

1. Classification of financial assets (continued)

Financial Asset at FVTPL

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

The Company does not have any debt or equity instrument classified at FVTPL, and thus this does not apply to the Company.

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 profit revenue, maintaining a particular profit 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.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Policies applicable from 1 January 2018 (continued)

1. Classification of financial assets (continued)

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

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' 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 profit, 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; and
- features that modify consideration of the time value of money.

IFRS 9 classification & measurement requirements do not apply to the Company as Ijara receivables continue to be subjected to the classification requirements as per IAS 17–Leases. However, Ijara receivables recognised by the Company are subject to the de-recognition and impairment requirements of IFRS 9.

2. 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 to issue the funds, and other cost that are integral part of the effective profit rate.

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

3. Derecognition

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 (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Policies applicable from 1 January 2018 (continued)

3. Derecognition (continued)

Financial assets (continued)

From 1 January 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. The Company does not have any equity instrument classified as FVOCI, and thus this does not apply to the Company.

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.

Financial liabilities

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

4. Modifications of financial assets and financial liabilities

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 and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition 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 the statement of 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.

The Company does not have any financial assets modified during the period, and thus this does not apply to the Company.

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 the statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Policies applicable from 1 January 2018 (continued)

5. Impairment

The Company recognizes loss allowances for expected credit losses ("ECL") on its Murabaha receivables and Ijara receivables.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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.

Measurement of ECL

ECL are 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);
- 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.

- If the expected restructuring will result in derecognition 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 derecognition to the reporting date using the original effective profit rate of the existing financial asset.

The Company does not have any financial assets restructured during the period, and thus this does not apply to the Company.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Policies applicable from 1 January 2018 (continued)

4. Impairment (continued)

Credit-impaired financial assets

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 an Ijara or Murabaha receivable by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

An Ijara or Murabaha receivable 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. In addition, an Ijara receivable that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL in the statement of financial position

Impairment allowances for ECL of financial assets measured at amortized cost and ijara receivables are presented in statement of financial position as a deduction of gross carrying amount of the assets.

Write-off

Financial assets 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.

6. Revenue recognition

Murabaha income

Murabaha income is recognized in the statement of 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Policies applicable from 1 January 2018 (continued)

6. Revenue recognition (continued)

Ijara (lease) income

Income from Ijara receivables is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Non operating income

Interest income on bank deposits is recorded on an accrual basis.

b) Critical accounting judgements, 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 advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used judgements, estimates and assumptions are as follows:

i. *Impairment of Ijara receivables*
ii. *Fair value measurement*
iii. *Going concern*

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue its business for the foreseeable future. Additionally, management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, these condensed interim financial statements have been prepared on a going concern basis.

4. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

Effective 1 January 2018, the Company has adopted IFRS 15 - Revenue from Contracts with Customers and IFRS 9 - Financial Instruments. The impact of the adoption of these standards is explained below:

- IFRS 15 - Revenue from 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 previously issued revenue guidance, which was 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. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The adoption of this standard has no material impact on the Company's condensed interim financial statements.

4. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

- IFRS 9 – Financial instruments

IFRS 9 - Financial Instruments was issued in July 2014 and is effective for annual periods commencing on or after 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.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized in note 3.

Transition

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

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  i. The determination of the business model within which a financial asset is held.
  ii. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.

Since there is no difference in the carrying amount of financial assets and financial liabilities as a result of adoption of IFRS 9, as of 1 January 2018, no comparative information has been restated or difference is recognised in the retained earnings / reserve as at 1 January 2018.

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	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
Financial assets				
Cash and bank balances	Loans and receivables	Amortized cost	**1,397,686,771**	**1,397,686,771**
Other receivables	Loans and receivables	Amortized cost	**84,300**	**84,300**
Murabaha receivables	Loans and receivables	Amortized cost	**100,068,030**	**100,068,030**
			1,497,839,101	**1,497,839,101**
Financial liabilities				
Trade and other payables	Amortized cost	Amortized cost	**21,907,149**	**21,907,149**
			21,907,149	**21,907,149**

4. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

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

There have been no remeasurement in any financial assets or financial liabilities of the Company due to adoption of IFRS 9 as at 1 January 2018.

iii) The following table provides carrying value of financial assets and financial liabilities in the statement of financial position:

	30 June 2018 (Unaudited)	
	New classification under IFRS 9 / IAS 17 Amortized cost	**Total carrying amount**
Financial assets		
Cash and bank balances	**616,795,725**	**616,795,725**
Murabaha receivables	**633,971,458**	**633,971,458**
Ijara receivables, net*	**286,980,234**	**286,980,234**
Other receivables	**402,330**	**402,330**
Total financial assets	**1,538,149,747**	**1,538,149,747**
Financial liabilities		
Trade and other payables	**62,282,281**	**62,282,281**
Total financial liabilities	**62,282,281**	**62,282,281**

*Ijara receivables are subject to the classification and measurement requirement as per IAS 17 - Leases.

	31 December 2017 (Audited)		
	Original classification under IAS 39 - Loans and receivables	Original classification under IAS 39 - Amortized cost	Total carrying amount
Financial assets			
Cash and bank balances	1,397,686,771	-	1,397,686,771
Murabaha receivables	100,068,030	-	100,068,030
Other receivables	84,300	-	84,300
Total financial assets	**1,497,839,101**	**-**	**1,497,839,101**
Financial liabilities			
Trade and other payables	-	21,907,149	21,907,149
Total financial liabilities	**-**	**21,907,149**	**21,907,149**

5. CASH AND CASH EQUIVALENTS

	30 June 2018	31 December 2017
	Unaudited	Audited
Cash in hand	**12,052**	2,402
Cash at bank	**616,783,673**	1,397,684,369
	616,795,725	1,397,686,771

6. MURABAHA RECEIVABLES, NET

	30 June 2018	31 December 2017
	Unaudited	Audited
Gross Murabaha receivables	**636,245,208**	100,875,675
Less: Unearned income	**(2,273,750)**	(807,645)
	633,971,458	100,068,030

6.1 The Company has entered into a facility agreement dated 20 December 2017, with Bidaya Home Finance Company for a short-term Murabaha financing facility amounting to SAR 850 million. Under the agreement, as at period end, the Company had disbursed an amount of SAR 30 million (31 December 2017: SAR 100 million) maturing on 26 September 2018. As at the period-end, the total Murabaha receivable is neither past due nor impaired.

6.2 The Company has entered into a facility agreement dated 17 January 2018 with Deutsche Gulf Finance for a short-term Murabaha financing facility amounting to SAR 750 million. Under the agreement, the Company has disbursed various amounts, totaling to SAR 600 million (31 December 2017: SAR Nil) with term periods of upto 3 months each. Further, these drawdowns carry varying profit rates from 3.50% - 3.54%. As at the period-end, the total Murabaha receivable is neither past due nor impaired.

6.3 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 of the financing companies.

7. IJARA RECEIVABLES, NET

	30 June 2018	31 December 2017
	Unaudited	Audited
Gross ijara receivables	**439,505,802**	-
Less: Unearned income	**(150,598,086)**	-
	288,907,716	-
Less : Impairment charge for credit losses	**(1,927,482)**	-
Ijara receivables, net	**286,980,234**	-

7. IJARA RECEIVABLES, NET (CONTINUED)

During the six-month period ended 30 June 2018, the Company purchased Ijara receivables portfolios from three financial institutions. The portfolios were acquired from Deutsche Gulf Finance, Amlak International for Real Estate Finance Company and Bidaya Home Finance Company.

Under the terms of the purchase, the Company agreed to purchase the entire right, title, interest and benefit in the Ijara receivables portfolios. As a result, the associated risk and rewards together with the control had been passed onto the Company.

The credit exposure from Ijara receivables is classified as under:

	Upto one year	More than 1 year and less than 5 years	More than 5 years	Total
30 June 2018				
Gross ijara receivables	**41,451,286**	**165,805,145**	**232,249,371**	**439,505,802**
Unearned income	**(22,487,465)**	**(94,158,505)**	**(33,952,116)**	**(150,598,086)**
	18,963,821	**71,646,640**	**198,297,255**	**288,907,716**
Impairment allowance for credit losses				**(1,927,482)**
				286,980,234

At 31 December 2017, there was no credit exposure from Ijara receivables.

8. INTANGIBLE ASSETS

	30 June 2018 Unaudited	31 December 2017 Audited
Cost:		
At the beginning of the period	**9,148,247**	-
Additions during the period	**1,557,378**	9,148,247
At the end of the period	**10,705,625**	9,148,247
Accumulated amortization:		
At the beginning of the period	**(150,928)**	-
Charge for the period	**(507,565)**	(150,928)
At the end of the period	**(658,493)**	(150,928)
Net book value as at	**10,047,132**	8,997,319

8.1 Intangible assets include Company's core and other office related softwares.

8.2 Included in the cost of intangible assets at 30 June 2018 is an amount of SR 9 million (31 December 2017: SR 7.6 million) which relates to a core system.

9. TRADE AND OTHER PAYABLES

	30 June 2018 Unaudited	31 December 2017 Audited
Due to Public Investment Fund, the shareholder (note 9.1)	**8,455,136**	8,455,136
Due to other suppliers	**1,713,061**	2,147,324
Withholding tax and VAT payable	**-**	1,392,604
Payable to Bidaya Home Finance Company (note 9.2)	**46,546,721**	-
Accruals for:		
- IT infrastructure	**-**	2,925,000
- Financial advisory services	**3,880,000**	3,750,000
- Employee related accruals	**117,952**	2,444,837
- Employee end-of-service benefits	**169,610**	-
- Legal and professional services	**410,000**	661,861
- Others	**989,801**	1,522,991
	62,282,281	23,299,753

9.1 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 7,600,000.

9.2 This represents balance payable to Bidaya Home Finance Company in relation to purchase of Ijarah receivables portfolio.

10. SHARE CAPITAL

The Company's authorized share capital is SAR 5,000,000,000 divided into 500,000,000 shares of SAR 10 each. As at 30 June 2018, the issued and fully paid-up share capital of the Company was SAR 1,500,000,000, which is fully owned by Public Investment Fund (31 December 2017: SAR 1,500,000,000).

11. GENERAL AND ADMINISTRATIVE EXPENSES

	For the three-month period ended 30 June 2018 Unaudited	For the three-month period ended 30 June 2017 Unaudited	**For the six- month period ended 30 June 2018 Unaudited**	For the period from 27 March 2017 (date of commercial registration) to 30 June 2017 Unaudited
Salaries and other benefits	**3,913,935**	-	**8,041,124**	-
Legal and professional fees	**3,867,629**	-	**4,570,327**	-
Travelling expenses	**188,184**	-	**810,789**	-
Rent	**414,441**	-	**817,754**	-
Depreciation and amortization	**423,686**	-	**690,601**	-
IT consulting	**950,479**	-	**1,282,979**	-
Others	**601,381**	-	**829,735**	-
	10,359,735	-	**17,043,309**	-

12. RELATED PARTY TRANSACTIONS

The related parties of the Company include the shareholder 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.

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

Name of related party	Nature of transactions	Relationship	For the 6 month period ended 30 June 2018	For the period from 27 March 2017 (date of commercial registration) to 30 June 2017
Public Investment Fund	Subscription of share capital		-	1,500,000,000
	Accounts payable – Pre-incorporation expenses incurred on behalf of the Company (note 12.1)	Shareholder	-	8,455,136
Key management personnel	Salaries and benefits		**2,974,536**	-
	Board meeting expenses		**4,800**	-
	End of service benefits		**57,545**	-

Name of related party	Nature of transactions	Relationship	30 June 2018	30 June 2017
Key management personnel	End of service benefits		**57,545**	-

12.1 The above transactions resulted in a payable amount due to Public Investment Fund amounting to SAR 8,455,136 as disclosed under trade and other payables in the statement of financial position.

13. RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including profit rate risks, equity price risk and currency risk). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out under policies approved by the management. The management identifies, evaluates and has written principles for overall risk management covering specific areas, such as foreign exchange risk, profit rate risk, credit risk and investment of excess liquidity.

i. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost as at 30 June 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts:

	12 month ECL		
Murabaha and Ijara receivables	**Stage 1 Gross carrying amounts**	**12 Month ECL**	**Stage 1 Net carrying amounts**
Unrated	918,102,088	1,612,377	916,489,711
Total	**918,102,088**	**1,612,377**	**916,489,711**

	Lifetime ECL (not credit impaired)		
Ijara receivables	**Stage 2 Gross carrying amounts**	**Lifetime ECL (not credit impaired)**	**Stage 2 Net carrying amounts**
Unrated	4,777,086	315,105	4,461,981
Total	**4,777,086**	**315,105**	**4,461,981**

At 30 June 2018, there are no financial assets which are categorized under stage 3 (credit impaired).

The table below reflects the maximum exposure to credit risk on the financial assets at the reporting date:

	30 June 2018 Unaudited	31 December 2017 Audited
Cash at bank	**616,783,673**	1,397,684,369
Murabaha receivable	**633,971,458**	100,068,030
Ijara recievables	**288,907,716**	-
Other receivables	**402,330**	84,300
	1,540,065,177	1,497,836,699

Credit risk on cash at bank is limited as the balances are held with banks with sound credit rating ranging from A2 to A1.

13. RISK MANAGEMENT (CONTINUED)

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 and including forward-looking information.

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).

Generating the term structure of PD

Since the Company is in the first year of operations, it has no historical data and therefore the Company has used PD's based on the historical data obtained from the external sources. External information includes data submitted to the governmental bodies by the mortgage finance companies of the Kingdom of Saudi Arabia.

Determining whether credit risk has increased significantly

The Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due except in case of rebuttal. 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.

The Company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Company recognises an allowance based on the 12-month ECL and interest is calculated on the gross carrying amount of asset (i.e. without deduction of credit allowances. All accounts at origination would be classified as Stage 1.

13. RISK MANAGEMENT

Determining whether credit risk has increased significantly (continued)

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired (i.e. there is no objective evidence of impairment), the Company recognises an allowance for the lifetime ECL.

With respect to portfolio held by Company, all the exposures are moved to stage 2 where the customer is 30 Days Past Due (DPD) or more (Principal or interest payments) as of 31st March, 2018.

- Stage 3: for credit-impaired (i.e. there is objective evidence of impairment at reporting date) financial instruments, the Company recognises the lifetime ECL. Default identification process i.e. DPD of 90 days or more (obligors already defaulted) is used as stage 3.

Modified financial assets

The contractual terms of Ijara or Murabaha receivables (loan) 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 loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan 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.

The revised terms usually include extending the maturity, changing the timing of profit payments.

Definition of 'Default'

The Company considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security; or
- the borrower is past due more than 90 days on any material credit obligation to the Company.

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. Based on advice from the Chief Risk Officer and economic experts and consideration of a variety of external actual and forecast information, the Company has made adjustment to its ECL model to incorporate the forward looking information.

13. RISK MANAGEMENT

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

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

These parameters are generally derived from internally developed statistical models developed by the originator using historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical models (loss rate estimation method), and assessed to the various categories of counterparties and exposures. These statistical models are based on data of the originator of the ijarah financing portfolio comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between DPD buckets, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. Due to the size of the Company's portfolio, there is insufficient historical LGD data to derive statistically reliable LGD estimates. Therefore, the Company benchmarks LGD to the LGD of mortgage finance companies of Kingdom of Saudi Arabia.

Going forward, subject to availability of adequate data, the Company shall derive the PD and LGD based on internally compiled data and shall revise the PD and LGD estimation methodology in line with IFRS 9 requirements.

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.

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 (including any borrower's extension options) 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 loan.

Collateral

The Company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the Ijara receivables. These collaterals mostly include promissory notes and real estate title. The collaterals are held mainly against Ijara receeivables and are 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.

14. 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 equivalent, Murabaha receivable, Ijara receivables and prepayments and other current assets. Financial liabilities consist of trade and other payables. At 30 June 2018, the carrying value of these financial assets approximate to their fair value. In the case of Ijara receivables, which were acquired close to the period end, the transaction price approximates to its fair value.

15. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base. Capital adequacy ratios as monitored and measured by the management below measure capital adequacy by comparing the Company's eligible capital with its statement of financial position, commitments and notional amount of derivatives, if any, at a weighted amount determined by management to reflect their relative risk.

16. PRE-OPERATING INCOME AND EXPENSE

16.1 The Company earned income from cash deposit in the bank's saving account and incurred some expenses before the Company received it's Commercial Registration on 27 March 2017. Such income and expenses, which related to the period prior to incorporation of the Company, had been recognized in the statement of profit or loss as pre-operating income of SR 14,927,292 and pre-operating expenses of SR 24,344,847 respectively.

16.2 The pre-operating expenses of the Company comprise of:

	For the pre-incorporation period and from 27 March 2017 (date of commercial registration) to 30 June 2017
Legal and professional charges	23,708,574
Marketing expenses	237,500
Others	398,773
	24,344,847

17. ISSUED IFRS BUT NOT YET EFFECTIVE

The Company has not early adopted the following new IFRS effective for annual periods beginning after 1 January 2018:

		Effective for annual periods beginning on or after
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019

18. APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements and its accompanying notes were approved for issue by the Board of Directors' on 14 Muharram 1440H (corresponding to 24 September 2018).