

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS
(Unaudited)
For the three-month and nine-month periods ended
30 September 2020
together with the
INDEPENDENT AUDITOR'S REVIEW REPORT



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

To the Shareholder of Saudi Real Estate Refinance Company

Introduction

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

- the interim condensed statement of financial position as at 30 September 2020;
- the interim condensed statement of comprehensive income for the three-month and nine-month periods ended 30 September 2020;
- the interim condensed statement of changes in equity for the nine-month period ended 30 September 2020;
- the interim condensed statement of cash flows for the nine-month period ended 30 September 2020; 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 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 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 2020 interim condensed financial statements of the 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

Khalil Ibrahim Al Sedais
License No: 371



Riyadh on: 23 Rabi Al Awwal 1442H
Corresponding to: 09 November 2020

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 September 2020
(Saudi Arabian Riyals)

	<i>Notes</i>	30 September 2020 (Unaudited)	31 December 2019 (Audited)
<u>ASSETS</u>			
Cash and cash equivalents	4	65,258,404	71,702,190
Murabaha receivables, net	5	4,221,180,417	777,776,212
Ijara receivables, net	6	1,760,094,488	1,383,000,372
Prepayments and other current assets	7	2,499,097	1,850,527
Property and equipment		4,571,557	5,452,855
Intangible assets	8	7,083,256	6,142,595
Right-of-use asset		3,555,445	4,317,323
TOTAL ASSETS		6,064,242,664	2,250,242,074
<u>LIABILITIES AND EQUITY</u>			
Accrued expenses and other liabilities	9	45,105,898	20,355,960
Deposit and borrowings	10	3,782,632,907	--
Debt securities issued	11	755,783,559	758,303,559
Lease liability		2,907,094	3,922,203
TOTAL LIABILITIES		4,586,429,458	782,581,722
Share capital		1,500,000,000	1,500,000,000
Accumulated losses		(22,186,794)	(32,339,648)
TOTAL SHAREHOLDER'S EQUITY		1,477,813,206	1,467,660,352
TOTAL LIABILITIES AND EQUITY		6,064,242,664	2,250,242,074

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
For the three-month and nine-month periods ended 30 September 2020
(Saudi Arabian Riyals)

	<i>Note</i>	For the three-month period ended 30 September	For the nine-month period ended 30 September	
		<u>2020</u>	<u>2019</u>	<u>2020</u> <u>2019</u>
REVENUE				
Income from Murabaha receivables		41,429,654	2,345,545	52,685,606 6,267,558
Income from Ijara receivables		28,083,400	14,784,370	72,202,750 38,284,555
Special commission expense		(18,968,137)	(7,943,750)	(36,880,788) (20,845,833)
Total revenue		50,544,917	9,186,165	88,007,568 23,706,280
OPERATING EXPENSES				
General and administrative expenses	12	(20,562,969)	(16,038,553)	(46,899,678) (52,097,770)
Servicing fee		(12,581,015)	(2,273,992)	(20,109,007) (4,936,987)
Advertising and marketing expenses		(182,940)	(498,333)	(925,723) (1,890,297)
Impairment charge for expected credit losses		(5,957,909)	(1,527,935)	(11,675,708) (3,833,128)
Total operating expenses for the period		(39,284,833)	(20,338,813)	(79,610,116) (62,758,182)
Operating income / (loss) for the period		11,260,084	(11,152,648)	8,397,452 (39,051,902)
NON-OPERATING INCOME				
Income from bank deposits		162,976	5,755,551	1,755,402 19,970,551
Income / (loss) for the period		11,423,060	(5,397,097)	10,152,854 (19,081,351)
Other comprehensive income		--	--	-- --
Total comprehensive income / (loss) for the period		11,423,060	(5,397,097)	10,152,854 (19,081,351)

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the nine-month period ended 30 September 2020
(Saudi Arabian Riyals)

	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
For the nine-month period ended			
<u>30 September 2020</u>			
Balance at 1 January 2020	1,500,000,000	(32,339,648)	1,467,660,352
Total comprehensive income for the period	--	10,152,854	10,152,854
Balance at 30 September 2020	<u>1,500,000,000</u>	<u>(22,186,794)</u>	<u>1,477,813,206</u>
 <i>For the nine-month period ended</i>			
<u>30 September 2019</u>			
Balance at 1 January 2019	1,500,000,000	(12,871,305)	1,487,128,695
Total comprehensive loss for the period	--	(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>

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
For the nine-month period ended 30 September 2020
(Saudi Arabian Riyals)

		For the nine-month period ended	
	<i>Notes</i>	30 September	
		2020	2019
Cash flows from operating activities:			
Net income / (loss) for the period		10,152,854	(19,081,351)
<i>Non-cash adjustments to reconcile net income / (loss) for the period to net cash used in operating activities:</i>			
Depreciation and amortization	12	4,611,924	5,587,921
Impairment charge for expected credit losses	5 & 6	11,675,708	3,833,128
Special commission expense		36,880,788	20,845,833
Amortisation of lease liability		257,591	--
		63,578,865	11,185,531
<i>Net changes in operating assets and liabilities:</i>			
Murabaha receivables		(3,453,729,366)	(305,696,802)
Ijara receivables		(388,769,824)	(691,158,380)
Prepayments and other current assets		(648,570)	5,724,016
Trade and other payables		(3,670,180)	(4,732,387)
Net cash used in operating activities		(3,783,239,075)	(984,678,022)
Cash flows from investing activities:			
Additions of property and equipment		(196,546)	(3,474,734)
Additions of intangible assets		(3,712,863)	--
Net cash used in investing activities		(3,909,409)	(3,474,734)
Cash flows from financing activities:			
Proceeds from borrowings	10	3,275,000,000	--
Proceeds from SAMA deposit	10	536,500,000	--
Proceeds from issuance of debt securities		--	500,000,000
Special commission paid		(29,522,602)	(15,453,692)
Lease liability paid		(1,272,700)	(1,157,000)
Net cash generated from financing activities		3,780,704,698	483,389,308
Net decrease in cash and cash equivalents		(6,443,786)	(504,763,448)
Cash and cash equivalents at beginning of the period		71,702,190	880,632,477
Cash and cash equivalents at end of the period	4	65,258,404	375,869,029

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the nine-month period ended 30 September 2020
(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 a license number 201709/شع/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 interim condensed financial statements of the Company as at and for the period ended 30 September 2020 has 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").

These 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 audited financial statements for the year ended 31 December 2019.

b) Basis of measurement

These interim condensed 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 functional and presentation currency of the Company. 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 interim condensed financial statements are consistent with those used in the preparation of the Company's annual audited financial statements for the year ended 31 December 2019.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Government grant

The Company recognizes a government grant related to income, if there is a reasonable assurance that it will be received, and the Company will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of profit is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of profit is measured as the difference between the initial fair value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. The government grant is recognised in the statement of income on a systematic basis over the period in which the Company recognises as expenses, the related costs, for which the grant is intended to compensate.

4. CASH AND CASH EQUIVALENTS

	<i>Note</i>	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Cash in hand		4,574	1,500
Cash at bank:			
- Current accounts		14,451,876	2,144,739
- Call deposit	4.1	<u>50,801,954</u>	<u>69,555,951</u>
		<u>65,258,404</u>	<u>71,702,190</u>

- 4.1 This represents deposit with a local bank which carry an average yield ranging from 0.5% - 1% per annum (31 December 2019: 1% - 2%).

5. MURABAHA RECEIVABLES, NET

	<i>Notes</i>	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Gross Murabaha receivables	15	4,226,016,592	777,776,212
Less: Allowance for expected credit losses	5.2	<u>(4,836,175)</u>	--
Murabaha receivables, net		<u>4,221,180,417</u>	<u>777,776,212</u>

- 5.1 The Company has entered into facility agreements with various financing companies for short-term Murabaha financing facilities. Under these agreements, the Company has disbursed amount totaling to SAR 1.06 billion (31 December 2019: SAR 0.78 billion) with term periods up to 12 months at fixed agreed rates. During the nine-month period ended 30 September 2020, as per the SAMA deferred payments program, the Company initially deferred term period by six months for facilities falling due within the period from 14 March 2020 to 14 September 2020. On 1 September 2020 SAMA extended the deferred payment program by allowing additional three months payment deferred for eligible customer.

Further to above, on 19 July 2020, the Company purchased Murabaha receivable mortgage portfolio from Public Pension Agency amounting to SAR 3.19 billion (30 September 2019: SAR Nil).

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5. MURABAHA RECEIVABLES, NET (CONTINUED)

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

As at 30 September 2020, the balance includes premium paid to purchase Murabaha receivables amounted to SAR 270.19 million (31 December 2019: SAR Nil).

5.2 The following table shows reconciliation of the allowance for expected credit losses for Murabaha receivables:

For the nine-month period ended 30 September 2020 (Unaudited)				
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January	--	--	--	--
Net movement	4,542,843	293,332	--	4,836,175
Balance as at 30 September	4,542,843	293,332	--	4,836,175

5.3 The credit quality of Murabaha receivables is as follows:

	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Neither past due nor impaired	3,950,698,900	777,776,212
Past due but not impaired:		
- 31 to 60 days	5,139,405	--
- 61 to 90 days	--	--
Impaired	--	--
	3,955,838,305	777,776,212

6. IJARA RECEIVABLES, NET

	<i>Note</i>	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Gross Ijara receivables		2,734,305,879	2,232,727,741
Less: Unearned income		(959,190,354)	(841,545,865)
		1,775,115,525	1,391,181,876
Less: Allowance for expected credit losses	6.2	(15,021,037)	(8,181,504)
Ijara receivables, net		1,760,094,488	1,383,000,372

6.1 During the nine-month period ended 30 September 2020, the Company purchased Ijara receivable portfolios from financial institutions amounting to SAR 490 million (30 September 2019: SAR 765 million).

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 has been passed onto the Company.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
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6. IJARA RECEIVABLES, NET (CONTINUED)

As at 30 September 2020, the balance includes premium paid to purchase Ijara receivables amounted to SAR 13.75 million (31 December 2019: SAR 12.85 million).

6.2 The following table shows reconciliation of the allowance for expected credit losses for Ijara receivables:

For the nine-month period ended 30 September 2020 (Unaudited)				
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January	5,180,240	2,427,249	574,015	8,181,504
Net movement	261,595	5,130,447	1,447,491	6,839,533
Balance as at 30 September	<u>5,441,835</u>	<u>7,557,696</u>	<u>2,021,506</u>	<u>15,021,037</u>

For the year ended 31 December 2019 (Audited)				
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January	2,698,619	686,508	661,581	4,046,708
Net movement	2,481,621	1,740,741	(87,566)	4,134,796
Balance as at 31 December	<u>5,180,240</u>	<u>2,427,249</u>	<u>574,015</u>	<u>8,181,504</u>

6.3 The credit quality of Ijara receivables is as follows:

	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Neither past due nor impaired	1,638,675,728	1,354,972,315
Past due but not impaired:		
- 31 to 60 days	71,542,445	21,435,098
- 61 to 90 days	28,717,187	12,319,275
Impaired	22,427,172	2,455,188
	<u>1,761,362,532</u>	<u>1,391,181,876</u>

7. PREPAYMENTS AND OTHER CURRENT ASSETS

	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Prepayments	1,379,312	1,316,538
Other assets	1,119,785	533,989
	<u>2,499,097</u>	<u>1,850,527</u>

8. INTANGIBLE ASSETS

Intangible assets include the Company's core and other office related software's.

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9. ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>Notes</u>	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Due to a shareholder		--	8,455,136
Due to other suppliers	9.1	7,650,260	4,812,590
Deferred income	15	28,420,118	--
Accruals for:			
- Service fee		3,624,627	761,660
- Employees' end-of-service benefits		2,329,152	1,730,329
- Employee related accruals		2,166,536	2,099,312
- Legal and professional services		829,930	1,712,000
- Others		85,275	784,933
		<u>45,105,898</u>	<u>20,355,960</u>

- 9.1** This includes payable to financial institutions amounting to SAR 3.34 million (31 December 2019: SAR 1.98) against certain cash shortfalls paid by them on behalf of the customers in accordance with the servicing agreements.

10. DEPOSIT AND BORROWINGS

	<u>Notes</u>	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Deposit from SAMA	10.1 & 15	499,195,441	--
Short-term borrowings	10.2	3,283,437,466	--
		<u>3,782,632,907</u>	<u>--</u>

- 10.1** During the period, the Company received profit-free deposit from SAMA under Private Sector Financing Support Program ("PSFSP") for a period of 43 months. As at 30 September 2020, present value of received profit-free deposit amounted to SAR 536.50 million.

- 10.2** This represents amounts borrowed from local commercial banks aggregating to SAR 3.275 billion (31 December 2019: SAR Nil) with varying maturity periods up till 7 months and carry borrowing costs at agreed rates.

As at 30 September 2020, the balance includes accrued special commission expense of SAR 8.44 million (31 December 2019: SAR Nil).

11. DEBT SECURITIES ISSUED

The Company has issued Sukuk totaling to SAR 750 million (31 December 2019: SAR 750 million) with terms ranging from 5 to 10 years. These debt securities carry profit at fixed rates ranging from 4.01% to 4.66% payable semi-annually.

As at 30 September 2020, the balance includes accrued special commission expense of SAR 5.78 million (31 December 2019: SAR 8.30 million).

SAUDI REAL ESTATE REFINANCE COMPANY
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12. GENERAL AND ADMINISTRATIVE EXPENSES

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Salaries and other benefits	11,726,671	7,842,874	29,501,735	23,593,671
Depreciation and amortization	1,608,629	2,143,960	4,611,924	5,587,921
Legal and professional fees	3,162,913	1,208,271	4,334,757	12,966,286
Travelling expenses	--	610,642	471,606	712,894
IT consulting	1,264,731	164,802	1,890,991	1,548,230
Others	2,800,025	4,068,004	6,088,665	7,688,768
	<u>20,562,969</u>	<u>16,038,553</u>	<u>46,899,678</u>	<u>52,097,770</u>

13. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Company transacts business with its related parties. Related parties include PIF ("the shareholder"), the Company's Board of Directors, and key management personnel, and other entities, which are under common ownership through PIF ("Affiliates") or have common Directors on their Board ("Board of Directors"). Key management personnel represent the Chief Executive Officer and his direct reports.

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

Related parties	Nature of transactions	For the nine-month period ended 30 September	
		2020	2019
		(Unaudited)	(Unaudited)
Board of directors	Board meeting expenses	2,873,335	2,360,000
Key management personnel	Salaries and benefits	6,968,742	7,508,475
Affiliates	Purchase of Ijara portfolio	109,214,244	290,763,397
	Service fee expense	2,724,278	1,171,496
	Murabaha receivables purchased	620,000,000	200,000,000
	Murabaha receivables repaid	400,000,000	120,000,000
	Income earned on Murabaha placements	4,222,954	1,065,111
	Debt security issued	--	100,000,000
	Special commission expense	16,475,491	10,518,986
	Proceeds from borrowings	1,750,000,000	--

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

Related parties	Nature of balance	30 September	31 December
		2020	2019
		(Unaudited)	(Audited)
Public Investment Fund ("Shareholder")	Trade and other payables	--	8,455,136
Board of directors	Board meeting expenses payable	1,782,000	1,691,334
Key management personnel	End of service benefits	947,281	679,122
Affiliates	Debt security held	355,719,361	352,218,027
	Murabaha receivables	403,782,855	402,897,616
	Borrowings	1,755,336,630	--
	Service fee payable	373,313	218,123

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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 equivalents, Murabaha receivables, Ijara receivables and other current assets. Financial liabilities consist of trade and other payables, debt securities issued, and deposit and borrowings.

Fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows the carrying amount and fair values of financial assets and financial liabilities where fair value is different from carrying value, including their levels in the fair value hierarchy.

30 September 2020 (Unaudited)					
	Carrying value	Level 1	Level 2	Level 3	Total
Ijara receivables, net	1,760,094,488	--	--	2,093,522,530	2,093,522,530
Murabaha receivables, net	4,221,180,417	--	--	4,511,685,616	4,511,685,616
Total	5,981,274,905	--	--	6,605,208,146	6,605,208,146

31 December 2019 (Audited)					
	Carrying value	Level 1	Level 2	Level 3	Total
Ijara receivables, net	1,383,000,372	--	--	1,438,336,889	1,438,336,889
Murabaha receivables, net	777,776,212	--	--	778,310,014	778,310,014
Total	2,160,776,584	--	--	2,216,646,903	2,216,646,903

The valuation of receivables is estimated using contractual cash flows discounted at latest yield, which is the contracted profit rate for recent transactions. Input into the discounted cash flow techniques includes recent yields and contractual cash flows.

There have been no transfers to and from any levels during the period.

Management assessed that the carrying amount of other financial instruments largely approximate fair value.

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(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the nine-month period ended 30 September 2020
(Saudi Arabian Riyals)

15. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS

The Coronavirus (“COVID-19”) pandemic continues to disrupt global markets as many geographies are beginning to experience 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 effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

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. This has entailed reviewing specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required.

The prevailing economic conditions do require the Company to continue to revise certain inputs and assumptions used for the determination of expected credit losses (“ECL”). These primarily revolve around either adjusting macroeconomic factors used by the Company in the estimation of ECL or revisions to the scenario probabilities currently being used by the Company. As the situation continues to be fluid, the management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. Accordingly, management’s ECL assessment includes sector-based analysis depending on the impacted portfolios and macroeconomic analysis. The Company has therefore recognised overlays of SAR 2.27 million as at 30 September 2020. The Company will continue to reassess as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

SAMA support programs and initiatives

Private Sector Financing Support Program (“PSFSP”)

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises (“MSME”) as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs, in which the Company is involved:

- Deferred payments program; and
- Funding for lending program.

As part of the deferred payments program launched by SAMA, the Company was required to defer payments for six months on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower’s potential cash flow issues. The Company effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September for a period of six months. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of Income from Murabaha Receivables. The Company continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the nine-month period ended 30 September 2020
(Saudi Arabian Riyals)

15. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS (CONTINUED)

SAMA support programs and initiatives (Continued)

Private Sector Financing Support Program ("PSFSP") (Continued)

Further to the above, on 1 September 2020, SAMA extended the deferred payments program by allowing additional three months payment deferrals for eligible MSMEs until 14 December 2020. The Company has affected the payment reliefs by deferring the instalments falling due within the period from 15 September 2020 to 14 December 2020 for a period of additional three months.

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 the arrangement. This resulted in the Company recognizing an additional modification loss of SAR 0.28 million during the period ended 30 September 2020.

Since the inception of the deferred payments program by SAMA and by the end of Q3 2020, the Company has recognised SAR 10.60 million of related modification losses of which SAR 6.65 million have been unwound.

In order to compensate the related cost that the Company is expected to incur under the SAMA support programs and initiatives, during the nine months period ended 30 September 2020 the Company received profit free deposits from SAMA amounting to SR 536.5 billion term of 43 months, which qualify as government grants. Management has determined based on the communication from SAMA, that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. By the end of 30 September 2020, total income of SAR 14.93 million has been recognised in the statement of income and SAR 28.42 million deferred. The management has exercised certain judgements in the recognition and measurement of this grant income. During the nine months period ended 30 September 2020, SAR 6.05 million has been charged to the statement of income relating to unwinding.

As at 30 September 2020, the Company is yet to participate in SAMA's funding for lending program.

In April 2020, SAMA issued further 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. The Company has received certain customer who are eligible for this program until 30 September 2020. The Company will continue to consider the guidance issued and evaluate any accounting impact as and when the case arises.

The Company has decided to voluntarily postpone payments for private sector (excluding financial sector) and self-employed sector customers who have credit facilities with the Company for three months. This has resulted a modification loss of SR 6.2 million.

16. SUBSEQUENT EVENT

On 5 October 2020, the Company received profit free deposits from SAMA amounting to SR 410.37 million.

17. APPROVAL OF FINANCIAL STATEMENTS

These interim condensed financial statements of the Company for the period ended 30 September 2020 were approved by the Board of Directors on 23 Rabi Al Awwal 1442H (corresponding to 09 November 2020).