

**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 2020**  
together with the  
**INDEPENDENT AUDITOR'S 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 June 2020;
- the condensed interim statement of profit or loss and other comprehensive income for the three-month and six-month periods ended 30 June 2020;
- the condensed interim statement of changes in equity for the six-month period ended 30 June 2020;
- the condensed interim statement of cash flows for the six-month period ended 30 June 2020; 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 June 2020 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**

  
**Khalil Ibrahim Al Sedais**  
License No: 371



Riyadh on: 26 Dhul Hijjah 1441H  
Corresponding to: 16 August 2020

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

	<i>Notes</i>	<b>30 June 2020 (Unaudited)</b>	31 December 2019 (Audited)
<b><u>ASSETS</u></b>			
Cash and cash equivalents	4	13,973,897	71,702,190
Murabaha receivables, net	5	1,072,577,818	777,776,212
Ijara receivables, net	6	1,718,073,911	1,383,000,372
Prepayments and other current assets	7	2,472,867	1,850,527
Property and equipment		4,916,665	5,452,855
Intangible assets		4,776,493	6,142,595
Right-of-use asset		3,809,404	4,317,323
<b>TOTAL ASSETS</b>		<b>2,820,601,055</b>	<b>2,250,242,074</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
Accrued expenses and other liabilities	8	41,384,621	20,355,960
Deposit and borrowings	9	551,317,323	--
Debt securities issued	10	758,080,782	758,303,559
Lease liability		3,428,183	3,922,203
<b>TOTAL LIABILITIES</b>		<b>1,354,210,909</b>	<b>782,581,722</b>
Share capital		1,500,000,000	1,500,000,000
Accumulated losses		(33,609,854)	(32,339,648)
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>1,466,390,146</b>	<b>1,467,660,352</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,820,601,055</b>	<b>2,250,242,074</b>

The accompanying notes 1 to 16 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 six-month periods ended 30 June 2020  
*(Saudi Arabian Riyals)*

	<i>Notes</i>	<b>For the three-month period ended 30 June 2020</b>	2019	<b>For the six-month period ended 30 June 2020</b>	2019
<b>REVENUE</b>					
Income from Murabaha receivables		<b>5,852,067</b>	858,118	<b>11,255,952</b>	3,922,013
Income from Ijara receivables		<b>19,773,818</b>	13,416,097	<b>44,119,350</b>	23,500,185
Special commission expense		<b>(9,616,487)</b>	(7,943,750)	<b>(17,912,651)</b>	(12,902,083)
<b>Total revenue</b>		<b>16,009,398</b>	6,330,465	<b>37,462,651</b>	14,520,115
<b>OPERATING EXPENSES</b>					
General and administrative expenses	11	<b>(14,207,530)</b>	(16,765,696)	<b>(26,336,709)</b>	(36,059,217)
Servicing fee		<b>(4,021,774)</b>	(1,476,701)	<b>(7,527,992)</b>	(2,662,995)
Advertising and marketing expenses		<b>(413,053)</b>	(419,428)	<b>(742,783)</b>	(1,391,964)
Impairment charge for credit losses on Ijara receivables	6	<b>(3,425,643)</b>	(1,448,315)	<b>(5,717,799)</b>	(2,305,193)
<b>Total operating expenses for the period</b>		<b>(22,068,000)</b>	(20,110,140)	<b>(40,325,283)</b>	(42,419,369)
<b>Operating loss for the period</b>		<b>(6,058,602)</b>	(13,779,675)	<b>(2,862,632)</b>	(27,899,254)
<b>NON-OPERATING INCOME</b>					
Income from bank deposits		<b>682,043</b>	7,655,310	<b>1,592,426</b>	14,215,000
<b>Loss for the period</b>		<b>(5,376,559)</b>	(6,124,365)	<b>(1,270,206)</b>	(13,684,254)
<b>Other comprehensive income</b>		--	--	--	--
<b>Total comprehensive loss</b>		<b>(5,376,559)</b>	(6,124,365)	<b>(1,270,206)</b>	(13,684,254)

The accompanying notes 1 to 16 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 EQUITY (UNAUDITED)**  
For the six-month period ended 30 June 2020  
*(Saudi Arabian Riyals)*

***For the six-month period ended  
30 June 2020***

	<b>Share capital</b>	<b>Accumulated losses</b>	<b>Total</b>
Balance at 1 January 2020	1,500,000,000	(32,339,648)	1,467,660,352
Total comprehensive loss	--	(1,270,206)	(1,270,206)
<b>Balance at 30 June 2020</b>	<b><u>1,500,000,000</u></b>	<b><u>(33,609,854)</u></b>	<b><u>1,466,390,146</u></b>

***For the six-month period ended  
30 June 2019***

Balance at 1 January 2019	1,500,000,000	(12,871,305)	1,487,128,695
Total comprehensive loss	--	(13,684,254)	(13,684,254)
<b>Balance at 30 June 2019</b>	<b><u>1,500,000,000</u></b>	<b><u>(26,555,559)</u></b>	<b><u>1,473,444,441</u></b>

The accompanying notes 1 to 16 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 six-month period ended 30 June 2020  
*(Saudi Arabian Riyals)*

	<u>Notes</u>	<b>For the six-month period ended 30 June 2020</b>	2019
<b>Cash flows from operating activities:</b>			
Net loss for the period		<b>(1,270,206)</b>	(13,684,254)
<i>Non-cash adjustments to reconcile net (loss) / profit for the period to net cash used in operating activities:</i>			
Depreciation and amortization		<b>3,003,295</b>	3,443,961
Impairment charge for credit losses	6	<b>5,717,799</b>	2,305,193
Special commission expense		<b>17,912,651</b>	12,902,083
Amortisation of lease liability		<b>200,180</b>	--
		<b><u>25,563,719</u></b>	<u>4,966,983</u>
<i>Changes in operating assets:</i>			
Murabaha receivables		<b>(305,126,767)</b>	70,563,751
Ijara receivables		<b>(340,791,338)</b>	(375,788,159)
Prepayments and other current assets		<b>(622,340)</b>	5,370,093
Trade and other payables		<b>(9,695,790)</b>	(7,109,041)
<b>Net cash used in operating activities</b>		<b><u>(630,672,516)</u></b>	<u>(301,996,373)</u>
<b>Cash flows from investing activities:</b>			
Additions of property and equipment		<b><u>(593,084)</u></b>	<u>(3,104,369)</u>
<b>Cash used in investing activities</b>		<b><u>(593,084)</u></b>	<u>(3,104,369)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from borrowings	9	<b>55,000,000</b>	--
Proceeds from SAMA deposit	9	<b>536,500,000</b>	--
Proceeds from issuance of debt securities		<b>--</b>	500,000,000
Special commission paid		<b>(17,268,493)</b>	(5,372,998)
Lease liability paid		<b>(694,200)</b>	(1,157,000)
<b>Cash generated from financing activities</b>		<b><u>573,537,307</u></b>	<u>493,470,002</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b><u>(57,728,293)</u></b>	188,369,260
Cash and cash equivalents at beginning of the period		<b><u>71,702,190</u></b>	880,632,477
<b>Cash and cash equivalents at end of the period</b>		<b><u><u>13,973,897</u></u></b>	<u><u>1,069,001,737</u></u>

The accompanying notes 1 to 16 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 six-month period ended 30 June 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 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 condensed interim financial statements of the Company as at and for the period ended 30 June 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").

**b) *Basis of measurement***

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

**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.

**SAUDI REAL ESTATE REFINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
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**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 2019.

**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 interest 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**

	<b>30 June 2020 (Unaudited)</b>	31 December 2019 (Audited)
Cash in hand	<b>1,425</b>	1,500
Cash at bank		
- Current accounts	<b>1,272,957</b>	2,144,739
- Call deposits (Note 4.1)	<b>12,699,515</b>	69,555,951
	<b><u>13,973,897</u></b>	<u>71,702,190</u>

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

**5. MURABAHA RECEIVABLES, NET**

	<b>30 June 2020 (Unaudited)</b>	31 December 2019 (Audited)
Gross Murabaha receivables (Note 14)	<b>1,075,434,389</b>	782,112,316
Less: Unearned income	<b>(2,856,571)</b>	(4,336,104)
<b>Murabaha receivables, net</b>	<b><u>1,072,577,818</u></b>	<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 totaling to SAR 1.07 billion (31 December 2019: SAR 0.78 billion) with term periods up to 12 months at fixed agreed rates. During the period six-month period ended 30 June 2020, as per the SAMA deferred payments program, the Company has deferred term period by additional six months for facilities falling due within the period from 14 March 2020 to 14 September 2020. As at the period-end, the total Murabaha receivable is neither past due nor impaired.

- 5.2** The Company in the ordinary course of its Murabaha financing holds collaterals as a security to mitigate credit risk which mainly includes promissory notes.



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**6. IJARA RECEIVABLES, NET**

	<b>30 June 2020 (Unaudited)</b>	31 December 2019 (Audited)
Gross Ijara receivables	<b>2,692,929,253</b>	2,232,727,741
Less: Unearned income	<b>(960,956,039)</b>	(841,545,865)
	<b>1,731,973,214</b>	1,391,181,876
Less: Impairment allowance for credit losses	<b>(13,899,303)</b>	(8,181,504)
<b>Ijara receivables, net</b>	<b>1,718,073,911</b>	1,383,000,372

- 6.1** During the six-month period ended 30 June 2020, the Company purchased Ijara receivable portfolios from financial institutions amounting to SAR 409 million (30 June 2019: SAR 419 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.

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

	<b>30 June 2020 (Unaudited)</b>			
	<b>12 month ECL</b>	<b>Lifetime ECL not Credit Impaired</b>	<b>Lifetime ECL Credit Impaired</b>	<b>Total</b>
Balance at 1 January	<b>5,180,240</b>	<b>2,427,249</b>	<b>574,015</b>	<b>8,181,504</b>
Net movement	<b>211,855</b>	<b>4,522,179</b>	<b>983,765</b>	<b>5,717,799</b>
Balance as at 30 June	<b>5,392,095</b>	<b>6,949,428</b>	<b>1,557,780</b>	<b>13,899,303</b>

  

	<b>31 December 2019 (Audited)</b>			
	<b>12 month ECL</b>	<b>Lifetime ECL not Credit Impaired</b>	<b>Lifetime ECL Credit Impaired</b>	<b>Total</b>
Balance 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	5,180,240	2,427,249	574,015	8,181,504

- 6.3** The credit quality of Ijara receivables as at 30 June 2020 is as follows:

	<b>30 June 2020 (Unaudited)</b>	31 December 2019 (Audited)
Neither past due nor impaired	<b>1,623,336,403</b>	1,354,972,315
Past due but not impaired		
- 31 - 60 days	<b>67,162,829</b>	21,435,098
- 61 - 90 days	<b>30,992,339</b>	12,319,275
Impaired	<b>10,481,643</b>	2,455,188
	<b>1,731,973,214</b>	1,391,181,876

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

**7. PREPAYMENTS AND OTHER ASSETS**

	<b>30 June 2020 (Unaudited)</b>	31 December 2019 (Audited)
Prepayments	1,370,595	1,316,538
Other assets	1,102,272	533,989
	<u>2,472,867</u>	<u>1,850,527</u>

**8. ACCRUED EXPENSES AND OTHER LIABILITIES**

	<b>30 June 2020 (Unaudited)</b>	31 December 2019 (Audited)
Due to a shareholder	--	8,455,136
Due to other suppliers (Note 8.1)	5,844,941	4,812,590
Deferred income (Note 14.1)	30,724,451	--
Accruals for:		
- Service fee	1,683,948	761,660
- Employees' end-of-service benefits	2,002,017	1,730,329
- Employee related accruals	687,232	2,099,312
- Legal and professional services	352,555	1,712,000
- Others	89,477	784,933
	<u>41,384,621</u>	<u>20,355,960</u>

- 8.1** This includes payable to financial institutions amounting to SAR 3.17 million (31 December 2019: SAR 1.98) against certain cash shortfalls paid by them on behalf of the customers in accordance with the Ijarah servicing agreements.

**9. DEPOSIT AND BORROWINGS**

These represent deposit from SAMA under Private Sector Financing Support Program("PSFSP") and borrowing from local commercial bank.

	<b>30 June 2020 (Unaudited)</b>	31 December 2019 (Audited)
Deposit from SAMA (Note 9.1 & 14)	496,170,748	--
Local commercial bank (Note 9.2)	55,146,575	--
	<u>551,317,323</u>	<u>--</u>

- 9.1** This represents present value of profit free deposit amounting to SAR 536.50 million from SAMA as part of deferred payment supports program with term period of 43 months.

- 9.2** This represent amounts borrowed from local commercial bank with term periods up to 6 months and carry borrowing costs at agreed rates.

**10. 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 June 2020, the balance includes accrued special commission expense of SAR 8.08 million (31 December 2019: SAR 8.30 million).

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

**11. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>For the six-month period ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Salaries and other benefits	17,775,064	15,750,797
Depreciation and amortization	3,003,295	3,443,961
Legal and professional fees	1,171,844	11,758,015
Travelling expenses	471,606	102,252
IT consulting	626,260	1,383,428
Others	3,288,640	3,620,764
	<b>26,336,709</b>	<b>36,059,217</b>

**12. 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:

<b>Related parties</b>	<b>Nature of transactions</b>	<b>For the six-month period ended 30 June</b>	
		<b>2020</b>	<b>2019</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Board of directors	Board meeting expenses	1,982,335	1,824,000
Key management Personnel	Salaries and benefits	2,979,107	2,700,561
Affiliate	Purchase of Ijara portfolio	109,214,243	207,027,083
	Service fee paid	297,640	453,740
	Murabaha receivables purchased	400,000,000	50,000,000
	Murabaha receivables repaid	400,000,000	120,000,000
	Income earned on Murabaha placements	2,689,579	412,166.65
	Debt security issued	--	100,000,000
	Special commission expense	7,398,806	7,358,153

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

<b>Related parties</b>	<b>Nature of balance</b>	<b>30 June 2020</b>	<b>31 December 2019</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
Public Investment Fund	Trade and other payables	--	8,455,136
Board of directors	Board meeting expenses payable	891,000	1,691,334
Key management personnel	End of service benefits	509,471	406,852
Affiliate	Debt security held	351,979,306	352,218,027
	Murabaha receivables	400,102,504	402,897,616
	Service fee payable	345,960	218,123

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

**13. 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 and debt securities issued.

***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 table below presents the financial instruments measured at their fair values as of reporting date based on the fair value hierarchy:

<b>30 June 2020 (Unaudited)</b>					
	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Ijara receivables, net</b>	<b>1,718,073,911</b>	<b>--</b>	<b>--</b>	<b>1,821,712,675</b>	<b>1,821,712,675</b>
<b>31 December 2019 – (Audited)</b>					
	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Ijara receivables, net</b>	<b>1,383,000,372</b>	<b>--</b>	<b>--</b>	<b>1,438,336,889</b>	<b>1,438,336,889</b>

The valuation of Ijara receivables is estimated using contractual cash flows discounted at latest variable yield, which is the contracted profit rate for recent transactions. Input into the discounted cash flow techniques includes Saudi Inter Bank Offer rates (SIBOR), contractual cash flows and primary origination spreads.

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

During March 2020, the World Health Organisation (“WHO”) declared the Coronavirus (“COVID-19”) outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices witnessed significant volatility during the first half of 2020, owing not just to demand issues arising from COVID-19 as the world economies went into lockdown, but also supply issues driven by volume which had predated the pandemic. The oil prices have shown some recovery in late Q2 2020 as oil producing countries cut back production coupled with increasing of demand as countries emerged from lockdowns.

The Company continues to evaluate the current situation through conducting stress testing scenarios on expected movements of oil prices and its impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the impact COVID-19 outbreak has had on its normal operations and financial performance. The steps taken by management also include the impacts of government and SAMA support relief programmes.

The prevailing economic conditions post lock down, 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. However, the impact of such uncertain economic environment continues to be difficult to assess for the purpose of ECL estimation. Therefore, and to the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. The Company has therefore recognised overlays of SR 2.26 million on their Ijara receivables. These have been based on analysis performed by the Company in cognisance of the impacted portfolios. The Company will continue to individually assess significant exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgemental and the Company will continue to reassess its position and the related impact on a regular basis.

**14.1 SAMA support programs and initiatives**

In response to COVID-19, SAMA launched the 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. Whilst the PSFSP encompasses several programs, the one most pertinent to the Company as at 30 June 2020 is the deferred payments program.

As part of the deferred payments program, the Company is required to defer payments for six months on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower’s potential cash flow issues. The Company has effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months without increasing the facility tenure of the applicable financing facilities granted with no additional costs to be borne by the customer.

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

**14.1 SAMA support programs and initiatives (continued)**

The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as modification in terms of arrangement as per the requirements of IFRS 9. This has resulted in the Company recognising a modification loss of SR 10.33 million as at 31 March 2020 which, has been presented as part of income from Murabaha receivables. From this modification loss, SR 1.6 million has been unwound by 30 June 2020. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

In order to compensate all the related cost that the Company is expected to incur under the SAMA and other public authorities program, the Company received SR 536.50 million of profit free deposit from SAMA. Management had 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. This resulted in a total income of SR 43.35 million, of which SR 10.33 million has been recognised on Day 1 in the statement of income as at 31 March 2020 immediately and SR 2.3 million recognised during Q2 2020. The management has exercised certain judgements in the recognition and measurement of this grant income. During the six months period ended 30 June 2020, SR 0.72 million has been charged to the statement of income relating to unwinding of the day 1 income.

As at 30 June 2020, the Company is yet to participate in SAMA’s funding for lending programs.

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. This has resulted a modification loss of SR 0.33 million.

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.

**15. SUBSEQUENT EVENT**

On 19 July 2020, the Company purchased portfolio from The Public Pension Agency amounting to SAR 3.14 billion.

**16. APPROVAL OF FINANCIAL STATEMENTS**

These condensed interim financial statements of the Company for the period ended 30 June 2020 were approved by the Board of Directors on 26 Dhul Hijjah 1441H (corresponding to 16 August 2020).