

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Condensed Interim Financial Statements
(Unaudited)
For the three-month period ended
31 March 2020



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Independent auditor's report on review of condensed interim financial statements

To the Shareholders of Bidaya Home Finance Company

Introduction

We have reviewed the accompanying condensed interim financial statements of Bidaya Home Finance Company (the "Company"), which comprises:

- the condensed interim statement of financial position as at 31 March 2020;
- the condensed interim statement of profit or loss and other comprehensive income for the three-month period ended 31 March 2020;
- the condensed interim statement of changes in equity for the three-month period ended 31 March 2020;
- the condensed interim statement of cash flows for the three-month period ended 31 March 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.

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 31 March 2020 condensed interim 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.

Emphasis of Matter

We draw attention to Note 18 to the condensed interim financial statements, which describes that the Company has received penalty notices from the General Authority of Zakat and Tax for late settlement of a portion of the VAT due from the Company. The Company has filed objections, and the ultimate outcome of the matter cannot be presently determined. A provision for the penalty has been recognized based on management's best estimate. Our conclusion is not modified in respect of this matter.

For KPMG Al Fozan & Partners
Certified Public Accountants

Kholoud A. Mousa Altambakti
License No: 421

21 Ramadan 1441H
Corresponding to 14 May 2020



BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
(Saudi Arabian Riyals in '000)
As at 31 March 2020

	<i>Notes</i>	31 March 2020	31 December 2019
<u>ASSETS</u>			
Cash and cash equivalents	5	35,672	377,860
Investments held at fair value through other comprehensive income (“FVOCI”)		893	893
Ijara receivables, net	6	1,929,715	1,787,568
Prepaid Zakat		1,782	2,713
Deposits, prepayments and other receivables	7	139,166	111,116
Right-of-use asset		865	1,305
Intangible assets, net		12,313	12,540
Property and equipment, net		6,297	6,689
Total assets		<u>2,126,703</u>	<u>2,300,684</u>
<u>LIABILITIES AND SHAREHOLDERS’ EQUITY</u>			
Financing facilities – secured	9	276,694	500,000
Sukuk	10	550,000	550,000
Lease liability		376	1,196
Accrued expenses and other current liabilities	8	444,649	400,757
Provision for employees’ end of service benefits		2,288	2,527
Total liabilities		<u>1,274,007</u>	<u>1,454,480</u>
Share capital	12	900,000	900,000
Statutory reserves	13	1,734	1,085
Accumulated losses		(49,038)	(54,881)
Total Shareholders’ equity		<u>852,696</u>	<u>846,204</u>
Total liabilities and shareholders’ equity		<u>2,126,703</u>	<u>2,300,684</u>

The accompanying notes from 1 to 23 form an integral part of these condensed interim financial statements.

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME (UNAUDITED)
(Saudi Arabian Riyals in '000)
For the three-month period ended 31 March 2020

	<i>Notes</i>	For the three-month period ended 31 March 2020	For the three-month period ended 31 March 2019 (Restated)
REVENUE			
Ijara income		29,666	21,639
Fee income		3,379	5,207
Servicing income		1,869	632
Total revenue		34,914	27,478
OPERATING EXPENSES			
General and administrative expenses	14	(15,131)	(13,797)
Selling and marketing expenses	15	(3,849)	(4,089)
Depreciation		(988)	(754)
Amortization		(738)	(332)
Impairment charge for credit losses	6.2, 7.1	(1,000)	(2,563)
Finance charges		(10,359)	(4,289)
Total operating expense for the period		(32,065)	(25,824)
Operating income for the period		2,849	1,654
Realized gain on sale of investments held at FVTPL		--	58
Profit on time deposit		42	--
Gain arising on modification of terms of financial liabilities	22	4,532	--
Net profit for the period before Zakat		7,423	1,712
Zakat charge for the period	11, 21	(931)	(171)
Net profit for the period after Zakat		6,492	1,541
Other comprehensive income		--	--
Total comprehensive income for the period		6,492	1,541
Earnings per share – basic and diluted (in SAR)	17	0.07	0.02

The accompanying notes from 1 to 23 form an integral part of these condensed interim financial statements.

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
(Saudi Arabian Riyals in '000)
For the three-month period ended 31 March 2020

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance as at 1 January 2020	900,000	1,085	(54,881)	846,204
Net profit for the period after Zakat	--	--	6,492	6,492
Other comprehensive income	--	--	--	--
Total comprehensive income for the period	--	--	6,492	6,492
Transfer to statutory reserve	--	649	(649)	--
Balance at 31 March 2020	<u>900,000</u>	<u>1,734</u>	<u>(49,038)</u>	<u>852,696</u>
Balance at 1 January 2019	900,000	--	(64,648)	835,352
Net profit for the period after Zakat (restated)	--	--	1,541	1,541
Other comprehensive income	--	--	--	--
Total comprehensive income for the period (restated)	--	--	1,541	1,541
Transfer to statutory reserve	--	171	(171)	--
Balance at 31 March 2019	<u>900,000</u>	<u>171</u>	<u>(63,278)</u>	<u>836,893</u>

The accompanying notes from 1 to 23 form an integral part of these condensed interim financial statements.

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF CASH FLOW (UNAUDITED)
(Saudi Arabian Riyals in '000)
For the three-month period ended 31 March 2020

	<u>Notes</u>	For the three-month period ended 31 March 2020	For the three- month period ended 31 March 2019
Cash flows from operating activities:			
Net profit for the period before Zakat		7,423	1,712
<i>Non-cash adjustments to reconcile net profit for the period to net cash used in operating activities:</i>			
Depreciation		988	754
Amortization		738	332
Finance charges		10,359	4,289
Provision for employees' end of service benefits		101	185
Impairment charge for credit losses	6.2, 7.1	1,000	2,563
Profit on time deposit		(42)	--
Realized gain on sale of investments held at FVTPL		--	(58)
Gain arising on modification of terms of financial liabilities		(4,532)	--
		<u>16,035</u>	<u>9,777</u>
<i>Increase in operating assets</i>			
Ijara receivables		(206,935)	(231,387)
Deposits, prepayments and other receivables		(31,256)	(108,681)
<i>decrease in operating liabilities</i>			
Accrued expenses and other current liabilities		45,117	92,566
		<u>(177,039)</u>	<u>(237,725)</u>
Employees' end of service benefits paid		(340)	--
Finance charges paid		(9,232)	(3,852)
Profit on time deposit received		42	--
Net cash used in operating activities		<u>(186,569)</u>	<u>(241,577)</u>
Cash flows from investing activities			
Purchase of property and equipment		(156)	(162)
Purchase of intangible assets		(511)	(149)
Purchase of investments held at FVTPL		--	(30,000)
Proceeds from sale of investments held at FVTPL		--	83,058
Net cash (used in) / generated from investing activities		<u>(667)</u>	<u>52,747</u>
Cash flows from financing activities			
Proceeds from sale of portfolio		65,873	207,004
Payment of lease liabilities		(825)	(445)
Proceeds from financing facilities – secured		180,000	50,000
Repayment of financing facilities – secured		(400,000)	(70,000)
Net cash (used in) / generated from financing activities		<u>(154,952)</u>	<u>186,559</u>
Net decrease in cash and cash equivalents		<u>(342,188)</u>	<u>(2,271)</u>
Cash and cash equivalents at beginning of the period		377,860	14,440
Cash and cash equivalents at end of the period		<u>35,672</u>	<u>12,169</u>

The accompanying notes from 1 to 23 form an integral part of these condensed interim financial statements.

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(Saudi Arabian Riyals in '000)
For the three-month period ended 31 March 2020

1. THE COMPANY AND THE NATURE OF OPERATIONS

Bidaya Home Finance Company (the "Company") 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 No. 1010432564 issued in Riyadh on 25 Jumada II 1436H (corresponding to 14 April 2015). The Company was granted a full license by Saudi Arabian Monetary Authority ("SAMA") to operate as a mortgage finance company vide license number 41/ع ش /201512 dated 3 Rabi I 1437H (corresponding to 14 December 2015).

The objectives of the Company are to provide home financing to consumers for the purchase of homes (new homes, ready homes and off plan construction homes) and providing finance to home owners against security of their homes.

The registered office of the Company with its postal address is as follows:

Bidaya Home Finance Company
20th Floor of Ibdeh Tower
King Fahad Road
P.O. Box 93898
Riyadh 11683
Kingdom of Saudi Arabia

2. BASIS OF PREPARATION

2.1 *Statement of compliance*

The condensed interim financial statements of the Company as at and for the period ended 31 March 2020 have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

The financial statements of the Company as at and for the period ended 31 March 2019 were prepared in compliance with the IAS 34 and the International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of Zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and International Financial Reporting Interpretations Council ("IFRIC") 21 – "Levies" in so far as these relate to Zakat and income tax) and the By-laws of the Company and the Regulations for Companies in the Kingdom of Saudi Arabia.

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

Accordingly, the Company changed its accounting treatment for Zakat by retrospectively adjusting the impact in line with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 4), and the effects of this change are disclosed in note 21 to the condensed interim financial statements.

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 annual financial statements as at 31 December 2019.

2.2 *Basis of measurement*

These condensed interim financial statements have been prepared under the historical cost convention, modified to include the measurement at fair value of investments held at FVTPL and investments held at FVOCI.

BIDAYA HOME FINANCE COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(Saudi Arabian Riyals in '000)
For the three-month period ended 31 March 2020

2. BASIS OF PREPARATION (CONTINUED)

2.3 *Functional and presentation currency*

These condensed interim financial statements have been presented in Saudi Arabian Riyals (SAR), as it is the functional currency of the Company. Except as indicated, the financial information presented in SAR has been rounded-off to the nearest thousand.

2.4 *Order of liquidity*

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

3. 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 2019.

4. CHANGE IN ACCOUNTING FOR ZAKAT

As mentioned above, the basis of preparation has been changed for the period ended 31 March 2019 as a result of the issuance of latest instructions from SAMA dated 18 July 2019. Previously, Zakat was recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 18 July 2019, the Zakat shall be recognized in the statement of profit or loss. The Company has accounted for this change in the accounting for Zakat retrospectively, and the effects of the above change are disclosed in note 21 to the condensed interim financial statements. The change has resulted in a decrease of reported income of the Company for the three-month period ended 31 March 2019 by SAR 0.17 million. The change has had no impact on the statement of cash flows for the three-month period ended 31 March 2019.

5. CASH AND CASH EQUIVALENTS

	31 March 2020 (Unaudited)	31 December 2019 (Audited)
Cash in hand	5	5
Cash at bank – current accounts	35,667	37,855
Time deposits	--	340,000
	35,672	377,860

6. IJARA RECEIVABLES, NET

	31 March 2020 (Unaudited)	31 December 2019 (Audited)
Gross Ijara receivables	3,593,446	3,400,258
Less: Unearned income	(1,655,631)	(1,603,505)
	1,937,815	1,796,753
Less: Impairment allowance for credit losses	(8,100)	(9,185)
Ijara receivables, net	1,929,715	1,787,568

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For the three-month period ended 31 March 2020

6. IJARA RECEIVABLES, NET (CONTINUED)

6.1 The credit quality of Ijara receivables is as follows

	31 March 2020 (Unaudited)	31 December 2019 (Audited)
Neither past due nor impaired	1,630,275	1,569,605
Past due but not impaired	226,022	155,701
Impaired	81,518	71,447
	<u>1,937,815</u>	<u>1,796,753</u>

The fair value of collateral of impaired Ijara receivables held by the Company based on the appraisal at the time of origination was SAR 2.89 billion (31 December 2019: SAR 2.51 billion).

As at 31 March 2020, the ageing of past due but not impaired installments and the related balances of Ijara receivables are as follows:

	31 March 2020 (Unaudited)		31 December 2019 (Audited)	
	Ijara receivables	Past due instalments	Ijara receivables	Past due instalments
01 – 30 days	135,313	1,144	94,857	942
31 – 60 days	70,665	971	47,836	1,414
61 –90 days	20,044	591	13,008	215
Total	<u>226,022</u>	<u>2,706</u>	<u>155,701</u>	<u>2,571</u>

6.2 The movement in the impairment allowance for credit losses for the period is as follows:

	31 March 2020 (Unaudited)	31 December 2019 (Audited)
Beginning balance	9,185	7,653
(Reversal) / Charge for the period	(1,085)	2,726
Written off during the period	--	(1,194)
Closing balance	<u>8,100</u>	<u>9,185</u>

The following table shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments.

	31 March 2020 (Unaudited)			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2019	937	1,125	7,123	9,185
Transfer to 12-month ECL	1,081	(463)	(618)	--
Transfer to lifetime ECL not credit impaired	(96)	627	(531)	--
Transfer to lifetime ECL credit impaired	(35)	(95)	130	--
Net charge for the period	(788)	882	(1,179)	(1,085)
Balance as at 31 March 2020	<u>1,099</u>	<u>2,076</u>	<u>4,925</u>	<u>8,100</u>

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6. IJARA RECEIVABLES, NET (CONTINUED)

	31 December 2019 (Audited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
Balance at 1 January 2019	2,302	2,751	2,600	7,653
Transfer to 12-month ECL	110	(77)	(33)	--
Transfer to lifetime ECL not credit impaired	(667)	708	(41)	--
Transfer to lifetime ECL credit impaired	(1,406)	(1,254)	2,660	--
Write off	--	--	(1,194)	(1,194)
Net charge for the period	598	(1,003)	3,131	2,726
Balance as at 31 December 2019	937	1,125	7,123	9,185

6.3 The maturity of Ijara receivables based on contractual maturity is as follows:

	31 March 2020 (Unaudited)			Total
	Not later than one year	Later than one period but not later than five years	Later than five year	
Ijara receivables	188,110	511,503	2,893,833	3,593,446
Unearned income	(110,087)	(322,153)	(1,223,391)	(1,655,631)
	78,023	189,350	1,670,442	1,937,815
Impairment allowance for credit losses			(8,100)	(8,100)
			1,929,715	1,929,715

	31 December 2019 (Audited)			Total
	Not later than one year	Later than one period but not later than five years	Later than five years	
Ijara receivables	173,844	480,370	2,746,044	3,400,258
Unearned income	(104,967)	(306,551)	(1,191,987)	(1,603,505)
	68,877	173,819	1,554,057	1,796,753
Impairment allowance for credit losses			(9,185)	(9,185)
			1,787,568	1,787,568

The Company's implicit rate of return on Ijara receivables ranges between 4.65% to 12.54% per annum (31 December 2019: 4.63% to 12.02% per annum). Term of Ijara receivables at origination ranges from five to thirty years.

7. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

		31 March 2020 (Unaudited)	31 December 2019 (Audited)
Accrued Ijara income, net	<i>Notes</i> 7.1	17,559	18,091
Prepayments		8,162	9,596
Deferred sales commission		8,305	7,509
Security deposit		270	270
Other receivables	7.2, 18	43,342	17,532
VAT rebate receivable from Ministry of Housing	7.3, 18	61,528	58,118
		139,166	111,116

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7. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

7.1 The balance of accrued Ijara income is as follows:

	31 March 2020 (Unaudited)	31 December 2019 (Audited)
Accrued Ijara income	<u>23,877</u>	<u>22,324</u>
Less: Impairment allowance for credit losses	<u>(6,318)</u>	<u>(4,233)</u>
Closing balance	<u>17,559</u>	<u>18,091</u>

The movement in impairment allowance for credit losses for the period is as follows:

	31 March 2020 (Unaudited)	31 December 2019 (Audited)
Beginning balance	<u>4,233</u>	--
Charge for the period	<u>2,085</u>	--
Closing balance	<u>6,318</u>	<u>4,233</u>

7.2 Other receivables includes cash collateral in respect of a letter of guarantee for SAR 29.18 million issued in favor of GAZT. The guarantee is in relation to a portion of the appeal filed by the Company in relation to the penalties imposed by the GAZT (see note 18).

7.3 This represents the receivable from Ministry of Housing (MOH) against the VAT payable by the Company on the portion of Ijarah financing originated subject to VAT relief for first home buyers.

8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<i>Notes</i>	31 March 2020 (Unaudited)	31 December 2019 (Audited)
Accounts payable		<u>28,997</u>	26,417
Down payment against Ijara financing	8.1	<u>13,324</u>	12,196
Accrued expenses		<u>15,794</u>	12,681
Directors' remuneration and meeting expenses		<u>2,395</u>	1,909
Deferred commission income		<u>13,141</u>	13,326
Payable to Ministry of Housing (MOH)	8.2	<u>353,625</u>	316,224
VAT payable to General Authority of Zakat and Tax ("GAZT")		<u>11,373</u>	12,004
Provision for penalties relating to VAT	18	<u>6,000</u>	6,000
		<u>444,649</u>	<u>400,757</u>

8.1. This pertains to down payment received by the Company against Ijara financing not executed as at the period end.

8.2. This represents balance payable to MOH in relation to purchase of properties which are financed to Ijara receivable customers.

9. FINANCING FACILITIES – SECURED

This represents borrowings obtained from a bank based in the Kingdom of Saudi Arabia and Saudi Real Estate Refinance Company ("SRC"). These borrowings are secured by the assignment of proceeds from certain Ijara receivables and pledge of title deeds of underlying real estate assets. These borrowings are revolving in nature and carry markup at commercial market rates and are repayable during the year 2020. In response to the COVID-19, SAMA launched the deferral payment program to support the finance companies and the Company is eligible for the deferral of its financing instalment payments for a period of six months in accordance with such program as disclosed in note 22.

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10. SUKUK

The Company issued unsecured non-convertible unlisted sukuk amounting to SAR 550 million (31 December 2019: SAR 550 million) carrying a profit at agreed fixed rates payable semi-annually. Out of the sukuk issued, SAR 250 million will mature in 2020 and the remaining SAR 300 million will mature in 2021.

11. ZAKAT

During the three-month period ended 31 March 2020, the Company has made a Zakat provision of SAR 0.93 million (31 March 2019: SAR 0.17 million).

12. SHARE CAPITAL

As at 31 March 2020, the authorised, issued and fully paid-up share capital of the Company was SAR 900 million (31 December 2019: SAR 900 million) divided into 90 million shares (31 December 2019: 90 million) with a nominal value of SAR 10 each, as follows:

<u>Name of shareholders</u>	Number of shares '000	Holding Percentage (%)	Amount SAR'000
Public Investment Fund	20,000	22.2	200,000
Islamic Corporation for the Development of the Private Sector	18,000	20.0	180,000
Rashed and his Partner's for Development (RECO)*	15,300	17.0	153,000
Manafea International	10,000	11.1	100,000
The Arab Investment Company	10,000	11.1	100,000
Al Othaim Holding	10,000	11.1	100,000
El Khereji Investments Company	3,200	3.6	32,000
Mohammad Bin AbdulAziz Al Rahji & Sons	2,000	2.2	20,000
Jawahir Investment Company	1,500	1.7	15,000
	90,000	100	900,000

*formerly known as Rashed Abdul Rahman Al Rashed and Sons

13. STATUTORY RESERVES

In accordance with the Company's Articles of Association, the Company sets aside 10% of its net profit each period as statutory reserve until such reserve equals to 30% of the share capital.

14. GENERAL AND ADMINISTRATIVE EXPENSES

	For the three- month period ended 31 March 2020 (Unaudited)	For the three- month period ended 31 March 2019 (Unaudited)
Salaries and employee related expenses	8,924	7,499
Professional fees	1,429	1,428
Rent and premises related expenses	277	267
Directors' remuneration and meeting expenses	524	470
IT expenses	1,500	2,161
Repair and maintenance and other expenses	2,477	1,972
	15,131	13,797

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15. SELLING AND MARKETING EXPENSES

	For the three-month period ended 31 March 2020 (Unaudited)	For the three-month period ended 31 March 2018 (Unaudited)
Advertising and marketing expenses	494	914
Salaries and employee related expenses	1,954	1,414
Financed property evaluation and Takaful	1,401	1,761
	3,849	4,089

16. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company include the shareholders and their 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 includes the Chief Executive Officer (“CEO”) and the personnel directly reporting to the CEO. Entity under common management has the Chairman of the Board who is the CEO of the Company.

The significant transactions with related parties during the period and the related balances are as follows:

<u>Name of related party</u>	<u>Nature of relationship</u>	<u>Nature of transaction</u>	<u>Amount of transactions for the three-month period ended 31 March 2020 (Unaudited)</u>	<u>Amount of transactions for the three-month period ended 31 March 2019 (Unaudited)</u>
Naif Saleh Ali Al Hamdan	Chairman	Installment payment for Ijara financing	40	31
<u>Name of related party</u>	<u>Nature of relationship</u>	<u>Nature of transaction</u>	<u>Balance at 31 March 2020 (Unaudited)</u>	<u>Balance at 31 December 2019 (Audited)</u>
Saudi Finance Lease Registry Company (SIJIL)	Common Management	Investment held at FVOCI	893	893
Naif Saleh Ali Al Hamdan	Chairman	Ijara financing	1,609	1,649

The amount of compensations recorded in favor of or paid to the Board of Directors and the executive management personnel during the period are as follows:

<u>Name of related parties</u>	<u>Nature of transactions</u>	<u>Amount of transactions for the three-month period ended 31 March 2020 (Unaudited)</u>	<u>Amount of transactions for the three-month period ended 31 March 2018 (Unaudited)</u>
Key Management Personnel	Salaries and benefits	1,727	1,469
	Provision for end of service benefits	66	56
	Payments for end of service benefits	164	--
	Directors’ remuneration and meeting expenses	524	470

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16. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

<u>Name of related parties</u>	<u>Nature of transactions</u>	Balance at 31 March 2019 (Unaudited)	Balance at 31 December 2019 (Audited)
Key Management Personnel	Salaries and benefits	--	--
	Provision for end of service benefits	836	783
	Directors' remuneration and meeting expenses	2,395	1,909

17. EARNINGS PER SHARE

Earnings per share for the period is calculated by dividing net profit for the period by the weighted average number of shares (90 million shares) in issue during the period.

18. COMMITMENTS AND CONTINGENCIES

Contingencies

During the period ended 31 December 2019, the GAZT has imposed penalties amounting to SAR 23.98 million on the Company for late settlement of a portion of the VAT due from the Company covering the period from January 2018 to August 2019. The VAT in question relates to the first SAR 850,000 of the purchase price of a home by a first time buyer which, under guidance issued by GAZT after the initial introduction of VAT, is required to be paid to GAZT by the lender and then reclaimed from Ministry of Housing.

The Company objected to this treatment on a number of grounds and declined to make such payments until such time as the process around the grossing up, settlement and subsequent reclaiming of such VAT was clarified. The process was clarified in a SAMA circular issued during August 2019. The Company subsequently agreed the amounts due in terms of the SAMA circular with GAZT and settled the resulting liability during December 2019.

The Company has formally appealed against the imposition of these penalties by GAZT. The Company believes that the appeal against the penalty will be successful on the basis that it has not acted unreasonably in this regard, that the VAT in question should not have been levied in the first instance, and that the penalty is retrospective given that the GAZT guidance and subsequent SAMA clarification only became effective after the assessment period.

The Company believes that its appeal against the imposition of these penalties will be successful. However, it recognizes that uncertainty exists regarding the eventual outcome of such appeal and that precedence exists for such matters to be settled by negotiation prior to the conclusion of the appeal process. Taking all potential outcomes and the uncertainty attached to each into consideration, the Company has determined that it would be prudent to provide against a portion of the penalties raised. It has therefore provided for an amount approximating 25% of the penalties claimed by GAZT.

Recognition of the remaining amount is contingent on the Company losing its appeal in this regard, or a change in the Company's assessment of the likelihood of eventual outcome. The first leg of the Company's appeal has been rebutted by GAZT and the appeal has now moved to the premier court. The Company had anticipated this at the time of appeal and this development does not alter the Company's assessment of likely outcome.

As required under the appeals procedure specified by the GAZT, the Company has submitted a bank guarantee for the items appealed against amounting to SAR 7.72 million. An additional guarantee was issued by the Company in January 2020 amounting to SAR 21.25 million for the penalties imposed by GAZT in December 2019.

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18. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Commitments

The Company has facilities approved but not utilized, indicative offers issued which are under consideration of the customers and due diligence in progress as of the reporting date which have the potential to convert into financing, amounting to SAR 47.58 million (31 December 2019: SAR 78.96 million).

At the end of the period, the Company has commitments of SAR 507.45 million against forward Ijara tranches payable to the developers of the properties (31 December 2019: SAR 391.76 million)

The commitments fall due in tranches as the developers of each of the properties complete pre-agreed phases of the construction. The period over which the properties are constructed, and hence the period over which the committed tranches fall due, is approximately two years.

19. 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.

The principal or the most advantageous market must be accessible to by the Company.

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, investments held at FVTPL, investments held at FVOCI, Ijara receivables, and deposits and other receivables. Financial liabilities consist of short-term financing, debt securities, and accrued expenses and other current liabilities.

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Assets at fair values are as follows:

	31 March 2020 (Unaudited)				
	<u>Carrying value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets measured at fair value</u>					
Investments held at FVOCI	893	--	--	893	893
	893	--	--	893	893

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20. SEGMENT INFORMATION

The Company's objective is to provide financing for real estate leases in the Kingdom of Saudi Arabia. All assets, liabilities and operations as reflected in the condensed interim statement of financial position and condensed interim statement of profit or loss and other comprehensive income belongs to the real estate financing segment.

21. IMPACT OF CHANGE IN ACCOUNTING FOR ZAKAT

The change in the accounting treatment for Zakat as explained in note 4 has the following impact on the condensed interim statement of profit or loss and changes in equity:

For the three-month period ended 31 March 2019				
Financial statement impacted	Account	Before the restatement for the three-month period ended 31 March 2019	Effect of restatement	As restated for the three-month period ended 31 March 2019
Statement of Changes in Equity	Zakat charge for the period	(171)	171	--
Statement of Profit or Loss	Zakat charge for the period	--	(171)	(171)
Statement of Profit or Loss	Earnings per share	0.02	0.001	0.02

22. 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 has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by production levels which had predated the pandemic. For the Company, whose operations are largely concentrated in an economy which is primarily based on oil, the economic impacts of the above events, though the scale and duration of which remains uncertain, primarily include:

- Significant business interruption arising from hinderance in generating new originations, travel restrictions and unavailability of personnel, etc.;
- Deterioration in credit worthiness of customers, in particular those working in 'highly exposed sectors' such as transportation, tourism, hospitality, entertainment, construction and retail; and
- A significant increase in economic uncertainty, evidenced by more volatile asset prices and currency exchange rates, and a general decline in interest rates globally.

Collectively, these current events and the prevailing conditions require the Company to analyse the likely impact of these events on the Company's business operations. The Board of Directors and the management of the Company have evaluated the current situation and accordingly, have activated its business continuity planning and other risk management practices to manage the potential business disruption the COVID-19 outbreak may have on its operations and financial performance. These also include commencing review of credit exposure concentrations at granular economic sector, region and counterparty level, including consideration of impacts of government and SAMA support, collateral protection, timely review and rating action and appropriately restructuring loans where required.

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

Those events require the Company to revise certain inputs and assumptions used for the determination of expected credit losses (“ECL”). These would primarily revolve around adjusting macroeconomic factors used by the Company in estimation of expected credit losses. The adjustments to macroeconomic factors resulted in an additional ECL of SAR 0.1 million for the Company. As with any forecasts, the projections and likelihood of occurrence are underpinned by significant judgement and uncertainty, and therefore the actual outcomes may be different to those projected. The impact of such an uncertain economic environment is judgemental, and the Company will continue to reassess its position and the related impact on a regular basis.

At this point in time, it is difficult to ascertain the specific effects the health crisis and government and SAMA support measures in response, such as the repayment holidays and other mitigating packages, will have. The Company has therefore concluded that it was too early for any potential credit impairment to be reflected through application of the staging criteria, and focused on the macroeconomic model underpinning the PD and LGD determinations. The Company will continue to individually assess exposures as more reliable data becomes available, and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

SAMA programs and initiatives launched

In response to COVID-19, SAMA launched the *Private Sector Financing Support Program* (“PSFSP”) in March 2020 to provide the necessary support to the SME sector through empowering and facilitating the financing community. The PSFSP encompasses the *‘Deferred payments program’* which is applicable on the Company.

As part of the deferred payments program, the Company is eligible for the deferral of its financing instalment payments to the banks and Saudi Real Estate Re-financing Company (“SRC”) for a period of six months. The payment relief is considered as short-term liquidity support to assist the Company’s cash flow position. The payment relief was provided by a bank and SRC by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months, without increasing the facility tenor. The accounting impact of these amended terms to the Company’s financing facilities has been treated as per the requirements of IFRS 9 as modifications in the terms of arrangement. This has resulted in the Company recognising a modification gain of SAR 4.53 million as at 31 March 2020, and this has been presented separately in the condensed interim statement of profit or loss. This gain will unwind in future periods up to the maturity of the financing facilities.

23. APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved for issue by the Board of Directors’ on 12 May 2020 (corresponding to 19 Ramadan 1441H).