

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Condensed Interim Financial Statements
(Unaudited)
For the three-month and nine-month periods ended
30 September 2019



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

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS 34") as endorsed in the Kingdom of Saudi Arabia.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2019 condensed interim financial statements of 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

Kholoud A. Mousa Altambakti
Partner
License No: 421



Riyadh: 29 Safar 1441H
Corresponding to 28 October 2019

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
(Saudi Arabian Riyals in '000)
As at 30 September 2019

| | | 30 September 2019 | 31 December 2018 |
|---|--------------|------------------------------|-------------------------|
| | <i>Notes</i> | <u>(Unaudited)</u> | <u>(Audited)</u> |
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | 6 | 43,187 | 14,440 |
| Investments held at fair value through profit or loss (“FVTPL”) | | -- | 53,000 |
| Investments held at fair value through other comprehensive income (“FVOCI”) | | 893 | 893 |
| Ijara receivables, net | 7 | 1,603,903 | 1,356,481 |
| Prepaid Zakat | | 4,106 | 5,426 |
| Deposits, prepayments and other receivables | 8 | 158,797 | 20,605 |
| Right-of-use asset | | 1,750 | -- |
| Intangible assets, net | | 8,463 | 4,243 |
| Property and equipment, net | | 6,544 | 6,887 |
| Total assets | | <u>1,827,643</u> | <u>1,461,975</u> |
| <u>LIABILITIES AND SHAREHOLDERS’ EQUITY</u> | | | |
| Short-term financing | 10 | 150,000 | 70,000 |
| Debt securities | 11 | 500,000 | 350,000 |
| Lease liability | | 2,180 | -- |
| Accrued expenses and other current liabilities | 9 | 328,823 | 204,862 |
| Provision for employees’ end of service benefits | | 2,339 | 1,761 |
| Total liabilities | | <u>983,342</u> | <u>626,623</u> |
| Share capital | 13 | 900,000 | 900,000 |
| Statutory reserves | 14 | 895 | -- |
| Accumulated losses | | (56,594) | (64,648) |
| Total shareholders’ equity | | <u>844,301</u> | <u>835,352</u> |
| Total liabilities and shareholders’ equity | | <u>1,827,643</u> | <u>1,461,975</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 and nine-month periods ended 30 September 2019

| | <i>Notes</i> | For the three-month period ended 30 September | | For the nine-month period ended 30 September | |
|--|--------------|--|--------------------|---|--------------------|
| | | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| REVENUE | | | | | |
| Ijara income | | 28,549 | 19,300 | 74,186 | 49,961 |
| Fee income | | 4,076 | 5,476 | 11,989 | 8,417 |
| Servicing income | | 1,110 | 21 | 2,636 | 21 |
| Total revenue | | 33,735 | 24,797 | 88,811 | 58,399 |
| OPERATING EXPENSES | | | | | |
| General and administrative expenses | 15 | (14,813) | (12,976) | (40,628) | (31,873) |
| Selling and marketing expenses | 16 | (4,280) | (3,638) | (13,206) | (10,071) |
| Depreciation | | (909) | (382) | (2,683) | (709) |
| Amortization | | (202) | (256) | (908) | (1,210) |
| Impairment charge for credit losses | | (819) | 936 | (4,512) | (3,287) |
| Finance charges | | (6,817) | (2,659) | (16,887) | (8,009) |
| Total operating expenses for the period | | (27,840) | (18,975) | (78,824) | (55,159) |
| Operating profit for the period | | 5,895 | 5,822 | 9,987 | 3,240 |
| Realized gain on investments held at FVTPL | | 26 | -- | 282 | 1,129 |
| Net profit for the period before Zakat | | 5,921 | 5,822 | 10,269 | 4,369 |
| Zakat (charge) / reversal for the period | 12, 21 | (450) | 1,509 | (1,320) | 1,203 |
| Net profit for the period after Zakat | | 5,471 | 7,331 | 8,949 | 5,572 |
| Other comprehensive income | | -- | -- | -- | -- |
| Total comprehensive income for the period | | 5,471 | 7,331 | 8,949 | 5,572 |
| Earnings per share | 18 | 0.061 | 0.081 | 0.099 | 0.062 |

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 nine-month period ended 30 September 2019

| | <u>Share capital</u> | <u>Statutory reserve</u> | <u>Accumulated losses</u> | <u>Total</u> |
|--|--------------------------|------------------------------|-------------------------------|----------------|
| Balance as at 1 January 2019 | 900,000 | -- | (64,648) | 835,352 |
| Net profit for the period after Zakat | -- | -- | 8,949 | 8,949 |
| Other comprehensive income | -- | -- | -- | -- |
| Total comprehensive income for the period | -- | -- | 8,949 | 8,949 |
| Transfer to statutory reserve | -- | 895 | (895) | -- |
| Balance at 30 September 2019 | 900,000 | 895 | (56,594) | 844,301 |
| Balance as at 1 January 2018 | 900,000 | -- | (81,314) | 818,686 |
| Impact of adopting IFRS 9 at 1 January 2018 | -- | -- | 3,693 | 3,693 |
| Restated balance at 1 January 2018 | 900,000 | -- | (77,621) | 822,379 |
| Net profit for the period after Zakat (restated) | -- | -- | 5,572 | 5,572 |
| Other comprehensive income | -- | -- | -- | -- |
| Total comprehensive income for the period (restated) | -- | -- | 5,572 | 5,572 |
| Balance at 30 September 2018 | 900,000 | -- | (72,049) | 827,951 |

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 nine-month period ended 30 September 2019

| | For the nine-month period ended 30 September | |
|--|---|-------------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net profit for the period before Zakat | 10,269 | 4,369 |
| <i>Non-cash adjustments to reconcile net profit for the period to net cash used in operating activities:</i> | | |
| Depreciation | 2,683 | 709 |
| Amortization | 908 | 1,210 |
| Finance charges | 16,887 | 8,009 |
| Provision for employees' end of service benefits | 578 | 407 |
| Impairment charge for credit losses | 4,512 | 3,287 |
| Gain on sale of property and equipment | (34) | -- |
| Realized gain on sale of investments held at FVTPL | (282) | (1,129) |
| | 35,521 | 16,862 |
| <i>(Increase) / decrease in operating assets</i> | | |
| Ijara receivables | (251,934) | (354,241) |
| Deposits, prepayments and other receivables | (138,651) | 2,687 |
| <i>Increase in operating liabilities</i> | | |
| Accrued expenses and other current liabilities | 121,100 | 127,237 |
| | (233,964) | (207,455) |
| Finance charges paid | (14,007) | (5,676) |
| Zakat paid | -- | (12,778) |
| Net cash used in operating activities | (247,971) | (225,909) |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (991) | (280) |
| Purchase of intangible assets | (5,128) | (1,147) |
| Purchase of investments held at FVTPL | (175,000) | (299,744) |
| Purchase of investments held at FVOCI | -- | (893) |
| Proceeds from sale of investments held at FVTPL | 228,282 | 350,886 |
| Net cash generated from investing activities | 47,163 | 48,822 |
| Cash flows from financing activities | | |
| Payment of lease liabilities | (445) | -- |
| Proceeds from issuance of debt securities | 150,000 | 250,000 |
| Proceeds from short-term financing | 200,000 | 150,000 |
| Repayment of short-term financing | (120,000) | (220,000) |
| Net cash generated from financing activities | 229,555 | 180,000 |
| Net increase in cash and cash equivalents | 28,747 | 2,913 |
| Cash and cash equivalents at beginning of the period | 14,440 | 21,653 |
| Cash and cash equivalents at end of the period | 43,187 | 24,566 |

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 and nine-month periods ended 30 September 2019

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 30 September 2019 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 and year ended 31 March 2019 and 31 December 2018, respectively, 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 and income tax 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 2018.

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 and nine-month periods ended 30 September 2019

2. BASIS OF PREPARATION (CONTINUED)

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.

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. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARD

Effective 1 January 2019, the Company has adopted International Financial Reporting Standards (“IFRS”) 16 – “Leases”. The accounting policy for this standard is disclosed in note 5 of these condensed interim financial statements. Significant judgments and estimates relating to IFRS 16 are also disclosed in note 5 of these condensed interim financial statements. The impact of the adoption of this standard is explained below:

IFRS 16 “Leases” replaces the previous guidance on leases, including IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Company’s Statement of Financial Position, unless the term is 12 months or less or the lease is in respect of a low value asset. Thus, the classification required under IAS 17 “Leases” into operating or finance leases is eliminated for lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs, and which is amortized over the useful life.

The Company has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of the lease liability, using the Company’s incremental borrowing cost at the time of first application. IFRS 16 transition disclosures also require the Company to present the reconciliation of the off-balance sheet lease obligations as of 31 December 2018 to the recognized lease liabilities as of 1 January 2019, which is as follows:

| | |
|--|--------------|
| Off-balance sheet lease obligations as of 31 December 2018 | 3,285 |
| Current leases with a lease term of 12 months or less & low-value leases | (648) |
| Operating lease obligations as of 1 January 2019 (gross without discounting) | 2,637 |
| Discounting of lease liability using the Company’s incremental borrowing rate | (32) |
| Total lease liabilities as of 1 January 2019 | 2,605 |

The Company’s incremental borrowing rate used in discounting the lease liability is 4.93%.

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 and nine-month periods ended 30 September 2019

4. CHANGE IN ACCOUNTING FOR ZAKAT AND INCOME TAX

As mentioned above, the basis of preparation has been changed for the period ended 30 September 2019 as a result of the issuance of latest instructions from SAMA dated 18 July 2019. Previously, Zakat and income tax were 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 and income tax shall be recognized in the statement of profit or loss. The Company has accounted for this change in the accounting for Zakat and income tax retrospectively, and the effects of the above change are disclosed in note 21 to the condensed interim financial statements. The change has resulted in increase of reported income of the Company for the nine-month period ended 30 September 2018 by SAR 1.20 million. The change has had no impact on the statement of cash flows for the period ended 30 September 2018.

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2018, except for the following changes due to the adoption of the new standard as explained in note 3 and change in accounting for Zakat and income tax as explained in note 4:

I. Accounting policy for leases

POLICY APPLICABLE FROM 1 JANUARY 2019

Right of use asset / lease liabilities

On initial recognition, at inception of the contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

Right of use assets

The Company applies the cost model, and measures right of use assets at cost:

- a) less any accumulated depreciation and any accumulated impairment losses; and
- b) adjusted for any re-measurement of the lease liability for lease modifications.

Lease liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor. After the commencement date, the Company measures the lease liability by:

1. Increasing the carrying amount to reflect interest on the lease liability;
2. Reducing the carrying amount to reflect the lease payments made; and
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

POLICY APPLICABLE BEFORE 1 JANUARY 2019

Operating leases

Leases that do not transfer to the Company substantially all of the risks and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Company are operating leases. Payments made under operating leases are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

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 and nine-month periods ended 30 September 2019

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Zakat

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to Zakat.

6. CASH AND CASH EQUIVALENTS

| | 30 September 2019 (Unaudited) | 31 December 2018 (Audited) |
|---------------------------------|--|----------------------------------|
| Cash in hand | 5 | 10 |
| Cash at bank – current accounts | 43,182 | 14,430 |
| | 43,187 | 14,440 |

7. IJARA RECEIVABLES, NET

| | <i>Notes</i> | 30 September 2019 (Unaudited) | 31 December 2018 (Audited) |
|--|--------------|--|----------------------------------|
| Gross Ijara receivables | | 3,099,326 | 2,545,006 |
| Less: Unearned income | | (1,483,934) | (1,180,872) |
| | 7.1 | 1,615,392 | 1,364,134 |
| Less: Impairment allowance for credit losses | 7.2 | (11,489) | (7,653) |
| Ijara receivables, net | | 1,603,903 | 1,356,481 |

7.1. The credit quality of Ijara receivables is as follows

| | 30 September 2019 (Unaudited) | 31 December 2018 (Audited) |
|-------------------------------|--|----------------------------------|
| Neither past due nor impaired | 1,378,838 | 1,125,935 |
| Past due but not impaired | 141,620 | 170,171 |
| Impaired | 94,934 | 68,028 |
| | 1,615,392 | 1,364,134 |

The fair value of collateral of impaired Ijara receivables held by the Company based on the appraisal at the time of origination was SR 118.42 million (31 December 2018: SR 86.88 million).

As at 30 September 2019, the ageing of past due but not impaired installments and the related balances of Ijara receivables are as follows:

| | 30 September 2019 (Unaudited) | | 31 December 2018 (Audited) | |
|---------------------|--|---------------------------------|-------------------------------|-------------------------|
| | Ijara receivables | Past due instalments | Ijara receivables | Past due instalments |
| 01 – 30 days | 66,218 | 742 | 82,739 | 1,089 |
| 31 – 60 days | 56,929 | 824 | 69,268 | 1,555 |
| 61 –90 days | 18,473 | 331 | 18,164 | 410 |
| Total | 141,620 | 1,897 | 170,171 | 3,054 |

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 and nine-month periods ended 30 September 2019

7. IJARA RECEIVABLES, NET (CONTINUED)

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

| | 30 September 2019 (Unaudited) | 31 December 2018 (Audited) |
|-----------------------------|--|----------------------------------|
| Beginning balance | 7,653 | 6,034 |
| Charge for the period /year | 4,512 | 1,619 |
| Written off loans | (676) | -- |
| Ending balance | 11,489 | 7,653 |

The following table shows reconciliations from the opening to the closing balance of the impairment allowance for credit losses of Ijara receivables.

| | 30 September 2019 (Unaudited) | | | |
|--|--------------------------------------|--|---|---------------|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| Balance at 1 January 2019 | 2,302 | 2,751 | 2,600 | 7,653 |
| Transfer to 12-month ECL | 64 | (64) | -- | -- |
| Transfer to lifetime ECL not credit impaired | (991) | 991 | -- | -- |
| Transfer to lifetime ECL credit impaired | (1,689) | (1,675) | 2,688 | (676) |
| Net charge for the period | 3,316 | (109) | 1,305 | 4,512 |
| Balance as at 30 September 2019 | 3,002 | 1,894 | 6,593 | 11,489 |

| | 30 September 2018 (unaudited) | | | |
|--|--------------------------------------|--|---|--------------|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| Balance at 1 January 2018 | 1,240 | 2,333 | 2,461 | 6,034 |
| Transfer to 12-month ECL | 161 | (88) | (73) | -- |
| Transfer to lifetime ECL not credit impaired | (867) | 874 | (7) | -- |
| Transfer to lifetime ECL-credit impaired | (226) | -- | 226 | -- |
| Net charge for the period | 964 | 741 | 1,582 | 3,287 |
| Balance as at 30 September 2018 | 1,272 | 3,860 | 4,189 | 9,321 |

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

| | 30 September 2019 (Unaudited) | | | Total |
|--|--|--|----------------------------------|------------------|
| | Not later than one year | Later than one year but not later than five years | Later than five years | |
| Ijara receivables | 164,258 | 441,518 | 2,493,549 | 3,099,325 |
| Unearned income | (99,178) | (282,707) | (1,102,048) | 1,483,933 |
| | 65,080 | 158,811 | 1,391,501 | 1,615,392 |
| Impairment allowance for credit losses | | | | (11,489) |
| | | | | 1,603,903 |

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
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For the three-month and nine-month periods ended 30 September 2019

7. IJARA RECEIVABLES, NET (CONTINUED)

| | 31 December 2018 (Audited) | | | |
|--|-------------------------------|---|--------------------------|------------------|
| | Not later than one year | Later than one year but not later than five years | Later than five years | Total |
| Ijara receivables | 148,135 | 429,344 | 1,967,527 | 2,545,006 |
| Unearned income | (102,277) | (281,309) | (797,286) | (1,180,872) |
| | 45,858 | 148,035 | 1,170,241 | 1,364,134 |
| Impairment allowance for credit losses | | | | (7,653) |
| | | | | <u>1,356,481</u> |

The Company's implicit rate of return on Ijara receivables ranges between approximately 4.84% to 12.54% per annum (31 December 2018: 4.84% to 12.00% per annum). The term of Ijara receivables ranges from five to thirty years.

8. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | <i>Notes</i> | 30 September 2019 (Unaudited) | 31 December 2018 (Audited) |
|--|--------------|--|----------------------------------|
| Markup receivable | 8.1 | 17,514 | 11,322 |
| Prepayments | | 6,075 | 4,787 |
| Deferred sales commission | | 6,499 | 3,264 |
| Security deposit | | 270 | 270 |
| Other receivables | 8.2 | 95,746 | 962 |
| VAT rebate receivable from Ministry of Housing | 8.3, 19 | 32,693 | -- |
| | | <u>158,797</u> | <u>20,605</u> |

8.1. ECL provision for markup receivable amounts to SAR 0.53 million.

8.2. Other receivables include a letter of guarantee for SR 7.72 million issued in favour of GAZT. The guarantee is in relation to the appeal filed by the Company in relation to the VAT assessed by the GAZT. In addition, other receivables include the receivable from the sale of Ijara receivables completed on 30 September 2019 amounting to SAR 83.07 million.

8.3. 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.

9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

| | <i>Notes</i> | 30 September 2019 (Unaudited) | 31 December 2018 (Audited) |
|---|--------------|--|----------------------------------|
| Accounts payable | | 20,185 | 20,334 |
| Down payment against Ijara financing | | 1,668 | 10,438 |
| Accrued expenses | | 11,551 | 6,844 |
| Directors' remuneration and meeting expenses | | 1,424 | 1,850 |
| Deferred management fee | | -- | 36 |
| Deferred commission income | | 15,469 | 17,251 |
| Payable to Ministry of Housing (MOH) | | 245,833 | 148,109 |
| VAT payable to General Authority of Zakat and Taxation ("GAZT") | 9.1, 19 | 32,693 | -- |
| | | <u>328,823</u> | <u>204,862</u> |

9.1. This represents VAT payable to GAZT on the portion of Ijarah financing originated where VAT relief is available for first home buyers.

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10. SHORT-TERM FINANCING

This represents borrowings obtained from a financial institution based in the Kingdom of Saudi Arabia and 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. As at 30 September 2019, total outstanding payable amounted to SAR 150 million (31 December 2018: SAR 70 million).

11. DEBT SECURITIES

As at 30 September 2019, the Company issued unsecured non-convertible unlisted sukuk amounting to SR 500 million (31 December 2018: SAR 350 million) carrying a profit at agreed fixed rates payable semi-annually. Out of the sukuks issued, SAR 150 million and SAR 200 million will mature in October 2019 and December 2019 respectively, and the remaining SR 250 million will mature in October 2020.

12. ZAKAT

During the nine-month period ended 30 September 2019, the Company has made a Zakat provision of SR 1.32 million (30 September 2018: 1.20 million).

13. SHARE CAPITAL

As at 30 September 2019, the authorised, issued and fully paid-up share capital of the Company was SR 900 million (31 December 2018: SR 900 million) divided into 90 million shares (31 December 2018: SR 90 million) with a nominal value of SR 10 each, as follows:

| <u>Name of shareholders</u> | Number of shares 000's | Holding Percentage (%) | Amount SR'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 Abdul Rahman Al Rashed and Sons | 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 Rajhi & Sons | 2,000 | 2.2 | 20,000 |
| Jawahir Investment Company | 1,500 | 1.7 | 15,000 |
| | 90,000 | 100 | 900,000 |

14. STATUTORY RESERVES

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

15. GENERAL AND ADMINISTRATIVE EXPENSES

| | For the nine- month period ended 30 September 2019 (Unaudited) | For the nine- month period ended 30 September 2018 (Unaudited) |
|--|---|--|
| Salaries and employee related expenses | 24,204 | 18,811 |
| Professional fees | 3,942 | 4,173 |
| Rent and premises related expenses | 1,090 | 1,937 |
| Directors' remuneration and meeting expenses | 1,557 | 1,308 |
| IT expenses | 2,918 | 2,928 |
| Repair and maintenance and other expenses | 6,917 | 2,716 |
| | 40,628 | 31,873 |

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16. SELLING AND MARKETING EXPENSES

| | For the nine-month period ended 30 September 2019 (Unaudited) | For the nine-month period ended 30 September 2018 (Unaudited) |
|--|--|---|
| Advertising and marketing expenses | 2,851 | 2,245 |
| Salaries and employee related expenses | 5,117 | 4,117 |
| Financed property evaluation and Takaful | 5,238 | 3,709 |
| | 13,206 | 10,071 |

17. 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 nine-month period ended 30 September 2019 (Unaudited)</u> | <u>Amount of transactions for the nine-month ended 30 September 2018 (Unaudited)</u> |
|--|-------------------------------|--|---|--|
| Naif Saleh Ali Al Hamdan | Chairman | Ijara financing | -- | 1,680 |
| | | Installment payment for Ijara financing | 27 | -- |
| <u>Name of related party</u> | <u>Nature of relationship</u> | <u>Nature of transaction</u> | <u>Balance at 30 September 2019 (Unaudited)</u> | <u>Balance at 31 December 2018 (Audited)</u> |
| Saudi Finance Lease Registry Company (SIJIL) | Common Management | Investment held at FVOCI | 893 | 893 |
| | | Expenses incurred on behalf of the Company | -- | 40 |
| | | Payment for services | 940 | -- |
| Naif Saleh Ali Al Hamdan | Chairman | Ijara financing | 1,630 | 1,680 |

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17. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

The amount of compensation 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 nine-month ended 30 September 2019 (Unaudited)</u> | <u>Amount of transactions for the nine-month ended 30 September 2018 (Unaudited)</u> |
|--------------------------------|--|--|--|
| Key Management Personnel | Salaries and benefits | <u>2,023</u> | <u>3,324</u> |
| | Provision for end of service benefits | <u>176</u> | <u>128</u> |
| | Directors' remuneration and meeting expenses | <u>1,557</u> | <u>1,308</u> |
| <u>Name of related parties</u> | <u>Nature of transactions</u> | <u>Balance at 30 September 2019 (Unaudited)</u> | <u>Balance at 31 December 2018 (Audited)</u> |
| Key Management Personnel | Provision for end of service benefits | <u>1,016</u> | <u>648</u> |
| | Directors' remuneration and meeting expenses | <u>1,424</u> | <u>1,850</u> |

18. EARNINGS PER SHARE

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

19. CONTINGENCIES AND COMMITMENTS

Contingencies

During the nine-month period ended 30 September 2019, the GAZT has imposed a penalty of SR 2.73 million on the Company relating to GAZT's determination of VAT underpaid amounting to SR 4.97 million for the period 1 January to 31 March 2018 following an assessment of that period's return. The VAT in question relates to the first SR 850,000 of the purchase price of a home by a first time buyer which, under guidance subsequently issued by GAZT, is required to be paid to GAZT by the lender and then reclaimed from Ministry of Housing. The Company has objected to this treatment and has therefore not made the payments which GAZT claims are due.

The Company has formally appealed against the imposition of this penalty 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 and that the penalty is retrospective given that the GAZT guidance only became effective after the assessment period. For this reason, the Company has not recognized the penalty in the period ended 30 September 2019 as it does not believe the payment of the penalty to be probable, given the case the Company intends to take to appeal. Recognition of this amount is contingent on the Company losing its appeal in this regard. As required under the appeals procedure specified by the GAZT, the Company has submitted a bank guarantee for the items appealed against amounting to SR 7.72 million.

As GAZT typically levies late payment penalties at a monthly rate for each month the underpaid VAT amount remains outstanding, further penalties may be incurred over and above the assessed amount shown above depending on the outcome of the appeal case.

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19. CONTINGENCIES AND COMMITMENTS (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 SR 52.10 million (31 December 2018: SR 74.22 million).

20. 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 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, lease liability 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:

| | 30 September 2019 (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 |
| 31 December 2018 (Audited) | | | | | |
| <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 FVTPL | 53,000 | -- | 53,000 | -- | 53,000 |
| Investments held at FVOCI | 893 | -- | -- | 893 | 893 |
| | 53,893 | -- | 53,000 | 893 | 53,893 |

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20. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

| | 30 September 2019 (Unaudited) | | | | |
|---|--------------------------------------|----------------|----------------|------------------|------------------|
| | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial assets not measured at fair value</u> | | | | | |
| Cash and cash equivalents | 43,187 | 43,187 | -- | -- | 43,187 |
| Ijara receivables, net | 1,603,903 | -- | -- | 1,498,509 | 1,498,509 |
| Deposits and other receivables | 113,530 | -- | -- | 113,530 | 113,530 |
| | <u>1,760,620</u> | <u>43,187</u> | <u>--</u> | <u>1,612,039</u> | <u>1,655,226</u> |

| | 31 December 2018 (Audited) | | | | |
|---|-----------------------------------|----------------|----------------|------------------|------------------|
| | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial assets not measured at fair value</u> | | | | | |
| Cash and bank balance | 14,440 | 14,440 | -- | - | 14,440 |
| Ijara receivables, net | 1,356,481 | -- | -- | 1,245,873 | 1,245,873 |
| Deposits and other receivables | 12,554 | -- | -- | 12,554 | 12,554 |
| | <u>1,383,475</u> | <u>14,440</u> | <u>--</u> | <u>1,258,427</u> | <u>1,272,867</u> |

| | 30 September 2019 (Unaudited) | | | | |
|--|--------------------------------------|----------------|----------------|----------------|----------------|
| | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial liabilities not measured at fair value</u> | | | | | |
| Debt securities | 500,000 | -- | -- | 500,000 | 500,000 |
| Short term financing | 150,000 | -- | -- | 150,000 | 150,000 |
| Accrued expenses and other current liabilities | 280,661 | -- | -- | 280,661 | 280,661 |
| Lease liability | 2,180 | -- | -- | 2,180 | 2,180 |
| | <u>932,841</u> | <u>--</u> | <u>--</u> | <u>932,841</u> | <u>932,841</u> |

| | 31 December 2018 (Audited) | | | | |
|--|-----------------------------------|----------------|----------------|----------------|----------------|
| | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial liabilities not measured at fair value</u> | | | | | |
| Short term financing | 70,000 | -- | -- | 70,000 | 70,000 |
| Debt securities | 350,000 | -- | -- | 350,000 | 350,000 |
| Accrued expenses and other current liabilities | 187,575 | -- | -- | 187,575 | 187,575 |
| | <u>607,575</u> | <u>--</u> | <u>--</u> | <u>607,575</u> | <u>607,575</u> |

Investments held at FVTPL is investment in units of mutual funds which have been valued based on net assets value reported by the Fund Manager.

The fair value of Ijara receivables is based on actual cash flows discounted by average period end internal rate of return, and is not evidenced by a quoted price in an active market for an identical asset or based on a valuation technique that uses only data from observable markets, hence the fair value of Ijara receivables is classified under level 3.

During the nine-month period ended 30 September 2019, there were no transfers into or out of Level 3.

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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 nine-month period ended 30 September 2018 | | | | |
|--|--|---|------------------------------|--|
| Financial statement impacted | Account | Before the restatement for the nine-month period ended 30 September 2018 | Effect of restatement | As restated for the nine-month period ended 30 September 2018 |
| Statement of Changes in Equity | Zakat (charge) / reversal for the period | 1,203 | (1,203) | -- |
| Statement of Profit or Loss | Zakat (charge) / reversal for the period | -- | 1,203 | 1,203 |
| Statement of Profit or Loss | Earnings per share | 0.049 | 0.013 | 0.062 |

| For the three-month period ended 30 September 2018 | | | | |
|---|--|--|------------------------------|---|
| Financial statement impacted | Account | Before the restatement for the three-month period ended 30 September 2018 | Effect of restatement | As restated for the three-month period ended 30 September 2018 |
| Statement of Profit or Loss | Zakat (charge) / reversal for the period | -- | 1,509 | 1,509 |
| Statement of Profit or Loss | Earnings per share | 0.064 | 0.017 | 0.081 |

22. 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 in the Kingdom of Saudi Arabia.

23. APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved for issue by the Board of Directors on 23 October 2019 (corresponding to 24 Safar 1441H).