

**Morabaha Marina Financing Company
(A Saudi Joint Stock Company)**

**INTERIM CONDENSED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REVIEW REPORT**

**FOR THE THREE-MONTH PERIOD ENDED
31 MARCH 2020**



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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF MORABAHA MARINA FINANCING COMPANY (A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Morabaha Marina Financing Company - A Saudi Joint Stock Company (the "Company") as at 31 March 2020, and the related interim condensed statements of comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended and other explanatory notes (the "interim condensed financial statements"). Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" 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 interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

For Ernst & Young

Yousef A. AIMubarak
Certified Public Accountant
License No. (427)

Riyadh: 21 Ramadan 1441H
(14 May 2019)



Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three-month period ended 31 March 2020

	<i>Notes</i>	2020 (Unaudited) SR	<i>2019</i> <i>(Unaudited)</i> <i>(Restated, note</i> <i>14)</i> <i>SR</i>
Special commission income	3	25,944,297	25,391,226
Special commission expense		(9,410,634)	(8,137,569)
NET SPECIAL COMMISSION INCOME		16,533,663	17,253,657
Other income, net	4	3,836,804	4,162,302
General and administration expenses	5	(7,390,473)	(7,612,652)
Impairment losses on Islamic financing receivables	6	(5,128,579)	(4,220,784)
INCOME BEFORE ZAKAT		7,851,415	9,582,523
Zakat	8	(1,601,689)	(988,150)
NET INCOME FOR THE PERIOD		6,249,726	8,594,373
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		6,249,726	8,594,373
Basic and diluted earnings per share		0.25	0.34

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

Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	<i>Notes</i>	31 March 2020 (Unaudited) SR	31 December 2019 (Audited) SR
ASSETS			
Cash and cash equivalents		99,094,217	156,581,005
Restricted cash deposits		1,873,624	1,873,624
Prepayments and other assets		11,699,532	9,949,969
Islamic financing receivables	6	606,914,897	590,418,446
Repossessed asset held for sale	6	4,208,962	4,208,962
Investment at fair value through OCI		892,850	892,850
Right-of-use assets		5,138,545	5,549,087
Property and equipment		4,722,110	4,889,813
Intangible assets		4,128,575	4,199,607
TOTAL ASSETS		738,673,312	778,563,363
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable, accruals and other liabilities	7	7,049,160	9,557,332
Provision for zakat	8	4,739,433	3,137,744
Borrowings	9	422,111,718	466,988,823
Lease liabilities		4,798,693	5,182,133
Employees' terminal benefits		2,408,542	2,381,291
TOTAL LIABILITIES		441,107,546	487,247,323
SHAREHOLDERS' EQUITY			
Share capital	10	255,000,000	255,000,000
Proposed increase in share capital	11	25,500,000	-
Statutory reserve		9,793,700	9,793,700
Retained earnings		7,272,066	26,522,340
TOTAL SHAREHOLDERS' EQUITY		297,565,766	291,316,040
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		738,673,312	778,563,363

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

Morabaha Marina Financing Company
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INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the three-month period ended 31 March 2020

	<i>Share capital SR</i>	<i>Statutory reserve SR</i>	<i>Proposed increase in share capital SR</i>	<i>Retained earnings SR</i>	<i>Total SR</i>
<i>For the three-month period ended 31 March 2019</i>					
Balance at 1 January 2019	228,960,000	6,882,184	-	26,358,697	262,200,881
Net income for the period (restated, note 14)	-	-	-	8,594,373	8,594,373
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period (restated, note 14)	-	-	-	8,594,373	8,594,373
Balance at 31 March 2019	<u>228,960,000</u>	<u>6,882,184</u>	<u>-</u>	<u>34,953,070</u>	<u>270,795,254</u>
<i>For the three-month period ended 31 March 2020</i>					
Balance at 1 January 2020	255,000,000	9,793,700	-	26,522,340	291,316,040
Proposed increase in share capital (note 11)	-	-	25,500,000	(25,500,000)	-
Net income for the period	-	-	-	6,249,726	6,249,726
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	6,249,726	6,249,726
Balance at 31 March 2020	<u>255,000,000</u>	<u>9,793,700</u>	<u>25,500,000</u>	<u>7,272,066</u>	<u>297,565,766</u>

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

Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the three-month period ended 31 March 2020

	Notes	2020 (Unaudited) SR	2019 (Unaudited) SR
OPERATING ACTIVITIES			
Income before zakat		7,851,415	9,582,523
Adjustments for:			
Modification loss on Islamic financing receivables	3	9,072,005	-
Modification gain on bank borrowings	3	(7,218,201)	-
Impairment losses on Islamic financing receivables	6	5,128,579	4,220,784
Depreciation of right of use assets		410,542	-
Depreciation and amortisation		424,507	816,302
Provision for employees' terminal benefit		27,251	114,100
Finance charge on lease		84,060	99,490
		<u>15,780,158</u>	<u>14,833,199</u>
<i>Operating cash flows before working capital changes:</i>			
Working capital adjustments:			
Islamic financing receivables		(30,697,035)	(40,536,615)
Prepayments and other assets		(1,749,563)	(4,298,045)
Accounts payable, accruals and other liabilities		(2,508,172)	(4,760,714)
		<u>(19,174,612)</u>	<u>(34,762,175)</u>
Cash used in operations		(19,174,612)	(34,762,175)
Lease obligation paid		(467,500)	(601,699)
Employees' terminal benefits paid		-	(12,539)
		<u>(19,642,112)</u>	<u>(35,376,413)</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		(102,247)	(107,533)
Purchase of intangible assets		(83,525)	(344,478)
		<u>(185,772)</u>	<u>(452,011)</u>
FINANCING ACTIVITIES			
Proceeds from borrowings		-	30,000,000
Repayment of borrowings		(37,658,904)	(21,704,632)
		<u>(37,658,904)</u>	<u>8,295,368</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(57,486,788)	(27,533,056)
Cash and cash equivalents at the beginning of the period		156,581,005	84,191,164
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		99,094,217	56,658,108
SIGNIFICANT NON-CASH TRANSACTIONS			
Proposed increase in share capital		25,500,000	-
Prepaid rent (adjustment upon adoption of IFRS 16)		-	(558,836)
Right-to-use assets		-	6,733,695
Lease liabilities		-	(6,174,859)
NON-CASH TRANSACTIONS:			
Special commission received		26,216,897	24,200,683
Special commission paid		(7,498,851)	(6,120,010)

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

Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

31 March 2020

1 ACTIVITIES

Morabaha Marina Financing Company (the “Company”) is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia (“KSA”) under commercial registration numbered 1010337706 dated 14 Jumad Al Thani 1433H (corresponding to 5 May 2012).

The Company's head office address is:
Morabaha Marina Financing Company
P.O Box 8055
Riyadh 14925
KSA

The Company is engaged in leasing and providing financing facilities to small and medium enterprises and consumers in addition to financing production assets and offering consumer finance in accordance with the Saudi Arabian Monetary Authority (“SAMA”) approval number 22/201410 dated 19 Dhul Qadah 1435H (corresponding to 13 September 2014).

2 BASIS OF PREPARATION

a. Statement of compliance

The interim condensed financial statements of the Company as at and for the three-month period ended 31 March 2020 are prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia. These interim condensed financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company’s annual financial statements for the year ended 31 December 2019.

The interim condensed financial statements of the Company as at and for the three-month period ended 31 March 2019 were prepared in compliance with IAS 34 as modified by SAMA for the accounting of zakat and income tax.

On 17 July 2019, SAMA instructed the finance companies in the Kingdom of Saudi Arabia to account for the zakat in the interim condensed statement of income. 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.

Accordingly, during 2019, the Company changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (the effects of this change are disclosed in note 14 to the interim condensed financial statements).

In preparing these interim condensed financial statements, the significant judgments made by the management are same as those that applied to the financial statements for the year ended 31 December 2019.

These interim condensed financial statements have been presented in Saudi Riyals (“SR”), as it is the functional currency of the Company.

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

Morabaha Marina Financing Company
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) (continued)

31 March 2020

2 BASIS OF PREPARATION (continued)

b. Significant accounting judgments, estimates and assumptions

The preparation of the Company's interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The outbreak of novel coronavirus ("COVID-19") since early 2020, its spread across mainland China and then globally caused disruptions to businesses and economic activity globally including the Kingdom of Saudi Arabia and the declaration of this pandemic by the World Health Organization necessitated the Company's management to revisit its significant judgments in applying the Company's accounting policies and the methods of computation and the key sources of estimation applied to the annual financial statements for the year ended 31 December 2019. Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, the Company's management carried out an impact assessment on the overall Company's operations and business aspects including factors like supply chain, travel restrictions, oil prices, product demand, etc. and concluded that, as of the issuance date of these interim condensed financial statements, no significant changes are required to the judgements and key estimates. However, in view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

The accounting estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2019.

c. New standards, interpretations and amendments adopted by the Company

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2019. The Company has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed financial statements of the Company.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the interim condensed financial statements of the Company as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed financial statements of, nor is there expected to be any future impact to the Company.

d. Significant accounting policies and estimates

The accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2019.

Morabaha Marina Financing Company
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) (continued)

31 March 2020

3 SPECIAL COMMISSION INCOME

Special commission income comprises of income from the following:

	<i>For the three-month period ended 31 March</i>	
	2020 <i>(Unaudited)</i> SR	2019 <i>(Unaudited)</i> SR
Tawarruq	26,967,633	24,071,742
Ijara	672,800	396,152
Murabaha	157,668	688,332
Modification loss on Islamic financing receivables	(9,072,005)	-
Modification gain on bank borrowings	7,218,201	-
Other	-	235,000
	25,944,297	25,391,226

4 OTHER INCOME, NET

	<i>For the three-month period ended 31 March</i>	
	2020 <i>(Unaudited)</i> SR	2019 <i>(Unaudited)</i> SR
Recovery of Islamic financing receivables written off	2,030,490	2,001,280
Income from short term deposits	844,089	1,073,014
Income from early settlement fees	730,214	1,088,008
Others	232,011	-
	3,836,804	4,162,302

5 GENERAL AND ADMINISTRATION EXPENSES

	<i>For the three-month period ended 31 March</i>	
	2020 <i>(Unaudited)</i> SR	2019 <i>(Unaudited)</i> SR
Salaries and employee related costs	4,441,178	4,152,158
Depreciation and amortisation	835,048	816,302
Bank charges	395,309	397,860
Professional fee	354,236	451,094
Insurance	342,880	437,230
Repair and maintenance	194,281	118,945
Utilities	130,154	99,873
Others	697,387	1,139,190
	7,390,473	7,612,652

Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)

31 March 2020

6 ISLAMIC FINANCING RECEIVABLES, NET

	<i>Tawarruq receivables</i>		<i>Ijara receivables</i>		<i>Murabaha receivables</i>		<i>Total</i>	
	<i>31 March 2020 (Unaudited) SR</i>	<i>31 December 2019 (Audited) SR</i>	<i>31 March 2020 (Unaudited) SR</i>	<i>31 December 2019 (Audited) SR</i>	<i>31 March 2020 (Unaudited) SR</i>	<i>31 December 2019 (Audited) SR</i>	<i>31 March 2020 (Unaudited) SR</i>	<i>31 December 2019 (Audited) SR</i>
Gross Islamic financing receivables	858,592,998	823,021,199	26,657,636	27,189,274	2,288,266	4,742,050	887,538,900	854,952,523
Less: Unrealised profit	(247,084,334)	(234,009,116)	(7,473,338)	(7,338,512)	(172,004)	(393,417)	(254,729,676)	(241,741,045)
	611,508,664	589,012,083	19,184,298	19,850,762	2,116,262	4,348,633	632,809,224	613,211,478
Less: Allowance for impairment losses	(25,717,647)	(22,363,241)	(106,716)	(326,313)	(69,964)	(103,478)	(25,894,327)	(22,793,032)
Islamic financing receivables, net	585,791,017	566,648,842	19,077,582	19,524,449	2,046,298	4,245,155	606,914,897	590,418,446

All the financing facilities provided by Company are Shariah compliant, accordingly they are unconventional in nature.

Morabaha Marina Financing Company
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) (continued)

31 March 2020

6 ISLAMIC FINANCING RECEIVABLES, NET (continued)

Analysis of credit quality of Islamic financing receivables is as follows:

	<i>31 March 2020 (Unaudited) SR</i>	<i>31 December 2019 (Audited) SR</i>
Neither past due nor impaired	410,871,348	345,601,008
Past due but not impaired	196,555,831	244,817,438
Past due and impaired	25,382,046	22,793,032
	<u>632,809,225</u>	<u>613,211,478</u>

Management classifies the Islamic financing receivables that are either not yet due or otherwise past due but for 90 days or less as “performing” while all receivables that are past due for more than 90 days are classified as “non-performing”. Below is the breakdown of performing and non-performing Islamic financing receivables:

	<i>31 March 2020 (Unaudited) SR</i>	<i>31 December 2019 (Audited) SR</i>
Performing	543,821,007	531,063,131
Non-performing	88,988,217	82,148,347
	<u>632,809,224</u>	<u>613,211,478</u>

Movement in the allowance for impairment losses were as follows:

	<i>31 March 2020 (Unaudited) SR</i>	<i>31 December 2019 (Audited) SR</i>
At beginning of the period / year	22,793,032	13,194,853
Charge for the period / year	5,128,579	20,144,035
Written-off during the period / year	(2,027,284)	(10,545,856)
At end of the period / year	<u>25,894,327</u>	<u>22,793,032</u>

REPOSSESSED ASSET HELD FOR SALE

During 2019, the Company acquired a real estate property against defaulted Tawarruq receivables. Based on the external valuation of property, the asset was recognized at fair value amounting to SR 4.2 million which exceeds the outstanding Tawarruq receivable.

Morabaha Marina Financing Company
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) (continued)

31 March 2020

7 ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	31 March 2020 (Unaudited) SR	31 December 2019 (Audited) SR
Accounts payable	2,446,804	1,596,276
Accrued expenses	2,392,746	3,181,265
Accrued special commission expenses	1,911,783	4,201,046
Others	297,827	578,745
	<u>7,049,160</u>	<u>9,557,332</u>

8 ZAKAT

The movement in the zakat provision for the period / year was as follows:

	For the three- month period ended 31 March 2020 (Unaudited) SR	For the year ended 31 December 2019 (Audited) SR	For the three- month period ended 31 March 2019 (Unaudited) SR
At beginning of the period / year	3,137,744	-	-
Charge for the period / year	1,601,689	6,611,673	988,150
Transfer to prepaid zakat	-	(3,473,929)	(988,150)
	<u>4,739,433</u>	<u>3,137,744</u>	<u>-</u>

Status of assessments

The Company has filed zakat returns with the General Authority of Zakat and Income Tax (“GAZT”) for all the years up to 2019. The Company had obtained its zakat assessments for all the years until 2017 while the assessments for the years 2018 and 2019 are still under review by the GAZT.

Morabaha Marina Financing Company
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) (continued)

31 March 2020

9 BORROWINGS

The table below shows the details of the borrowings obtained by the Company:

	<i>31 March 2020 (Unaudited) SR</i>	<i>31 December 2019 (Audited) SR</i>
A Bank borrowings	214,317,118	240,024,652
B Sukuk payable	175,148,420	190,276,124
C Borrowings from a government entity	32,646,180	36,688,047
	422,111,718	466,988,823
	172,449,881	261,872,437
Current portion	249,661,837	205,116,386
Non-current portion	422,111,718	466,988,823

All borrowing facilities of the Company are Shariah compliant financing arrangements, and are unconventional in nature.

A) The table below shows the details of the bank borrowings obtained by the Company:

	<i>31 March 2020 (Unaudited) SR</i>	<i>31 December 2019 (Audited) SR</i>
Islamic financing (see notes i and ii below)	216,049,457	241,962,159
Unamortised upfront charges	(1,732,339)	(1,937,507)
	214,317,118	240,024,652
	142,058,161	185,184,496
Current portion	72,258,957	54,840,156
Non-current portion	214,317,118	240,024,652

Islamic financing shown above includes:

- i) Four (2019: five) revolving Islamic facilities for a total amount of SR 85.92 million (2019: SR 95.71 million). Each of these facilities is for an original term of one year and renewable for additional periods of one year each at the lender's option up to a total of four years and carry special commission at floating commercial rates. The facilities are secured by an assignment of receivables. Since the option to refinance or roll over the facilities is at the lender's discretion therefore these facilities are classified as a current liability in these financial statements.
- ii) Six (2019: Six) other Islamic facilities for a total amount of SR 135.61 million (2019: SR 144.3 million) obtained from commercial banks to finance the Islamic financing assets of the Company and carry special commission at floating commercial rates. The facilities are secured by assignment of receivables and are repayable on a monthly basis over 48 installments.

Morabaha Marina Financing Company
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) (continued)

31 March 2020

9 BORROWINGS (continued)

B) The table below shows the details of the sukuk payable issued by the Company:

	<i>31 March 2020 (Unaudited) SR</i>	<i>31 December 2019 (Audited) SR</i>
Islamic financing through Sukuk	180,133,333	195,700,000
Less: unamortised upfront charges	(4,984,913)	(5,423,876)
	175,148,420	190,276,124
Current portion	62,266,666	58,044,282
Non-current portion	112,881,754	132,231,842
	175,148,420	190,276,124

In February 2018, the Company issued Sukuk with an aggregate principal of SR 178 million. The Sukuk carry a fixed rate of interest at 8% per annum due for settlement on a quarterly basis. The Sukuk's principal is due to be repaid in quarterly instalments commencing from May 2018, with the final instalment due in February 2023.

In December 2019, the Company issued a new Sukuk with an aggregate principal of SR 80 million. The Sukuk carry a fixed rate of interest at 6% per annum due for settlement on a quarterly basis. The Sukuk's principal is due to be repaid in quarterly instalments commencing from March 2020, with the final instalment due in December 2022.

Both the Sukuks are secured by assignment of receivables.

C) The table below shows the details of the loan obtained by the Company from a government entity:

	<i>31 March 2020 (Unaudited) SR</i>	<i>31 December 2019 (Audited) SR</i>
Current portion	18,562,152	18,643,661
Non-current portion	14,084,028	18,044,386
	32,646,180	36,688,047

During September 2018 and December 2018, the Company received loans from a government entity amounting to SR 20 million and SR 36 million, respectively. The loan has to be repaid in monthly instalments commencing from December 2018 and April 2019, respectively, with the final instalment due in November 2021 and March 2022, respectively.

The above loans received by the Company from a government entity carries special commission at rates significantly lower than the currently prevailing market rates. These loans provided to the Company carry a number of conditions, one of which is that these loans are to be used for providing loans to specific types/sectors of customers at discounted rates. The benefit amounting to SR 6.2 million being the impact of the "lower than market value" loans obtained by the Company had been identified and accounted for as "government grant" and has initially been recorded as deferred income and classified within "accounts payables, accruals and others". Such benefit is being recognised in statement of comprehensive income of the Company on a systematic basis as the expense, for which such grant is intended to compensate.

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(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) (continued)

31 March 2020

10 SHARE CAPITAL

Share capital is divided into 25.5 million shares (2019: 25.5 million shares) of SR 10 each.

11 PROPOSED INCREASE IN SHARE CAPITAL

The Board of Directors in their meeting held on 26 Jumada Thani 1441H (corresponding to 20 February 2020) resolved to increase the share capital of the Company from SR 255 million to SR 280.5 million from retained earnings. The legal formalities required to enforce the increase in share capital have not been completed as at 31 March 2020 and therefore such amount is presented as proposed increase in share capital.

12 RELATED PARTIES TRANSACTIONS AND BALANCES

Significant transactions arising from transactions with related parties are as follows:

<i>Related parties</i>	<i>Nature of transactions</i>	<i>For the three-month period ended 31 March</i>	
		2020 <i>(Unaudited)</i> SR	2019 <i>(Unaudited)</i> SR
Key management personnel	Compensation – salaries and other incentive	1,540,000	639,000

Below are the balances receivables from key management personnel as at year end:

Key management personnel	Islamic financing receivables	1,854,381	1,116,223
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13 FINANCIAL INSTRUMENTS AND FAIR VALUE

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, restricted cash deposits, investment, Islamic financing receivables and other receivables. Financial liabilities consist of borrowings, accounts payable and other payables.

Fair value hierarchy

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: 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.

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13 FINANCIAL INSTRUMENTS AND FAIR VALUE (continued)

Fair value hierarchy (continued)

Following table indicates fair value level hierarchy of the financial instruments of the Company. Islamic financing receivables and investment held at fair value through other comprehensive income (FVTOCI) are classified within level 3 of the fair value hierarchy while the rest of the financial assets and financial liabilities of the Company are classified within level 2 of the fair value hierarchy. Management believes that the fair value of the financial assets and liabilities included in the table below and not carried at fair value in these financial statements at the reporting date, approximate their carrying values mainly due to the short maturities of most of these financial assets and liabilities.

	31 March 2020 (Unaudited) SR	31 December 2019 (Audited) SR
<i>Financial assets</i>		
Cash and cash equivalents	99,094,217	156,581,005
Restricted cash deposits	1,873,624	1,873,624
Other assets (excluding special commission receivable)	10,937,453	8,168,826
<i>Financial liabilities</i>		
Accounts payables, accruals and other liabilities (excluding accrued special commission expense)	5,273,756	6,376,067

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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.

The Company's management determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

There have been no transfers between various levels of fair value hierarchy during the current period and prior year.

Fair value of Islamic financing receivables

	<u>31 March 2020</u>		<u>31 December 2019</u>	
	<i>(Unaudited) Carrying value SR</i>	<i>(Unaudited) Fair value SR</i>	<i>(Audited) Carrying value SR</i>	<i>(Audited) Fair Value SR</i>
<i>Financial assets</i>				
Islamic financing receivables	606,914,897	643,858,211	590,418,446	609,677,304

For determination of the fair value of Islamic financing receivables, management assesses the market under the current conditions, and assesses the profit rates that the Company could obtain against its current portfolio. The portfolio is segregated into various categories. The profit rates over the last five years have been assessed and used as a base for the discount rate relating to the valuation of the portfolio. Premiums have then been added to each category based on the prevailing economic conditions in the country. The premiums move from 50 basis points to 250 basis points.

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13 FINANCIAL INSTRUMENTS AND FAIR VALUE (continued)

Fair value of Islamic financing receivables (continued)

The initial base rate, before premiums, were calculated using the average quoted rate against contracts for the last five years. This quoted rate was compared to the average effective yield that the contracts generate to derive the factor to translate the quoted rate to an effective rate in order to lift the base rate from a quoted rate to an effective rate. The average of the quoted rate for the Company's portfolio over this period was 16.95%, and the average effective rate for this same portfolio was 19.24%, resulting in a lift factor of 0.88x.

Deemed premium for each category has been added to the base quoted rate, and the lift factor of 0.88x was applied to arrive at the effective yield which was used as a proxy discount rate to fair value the portfolio.

The cash flows of each category were discounted using the proxy discount rate applicable to each category to arrive at the fair value of the portfolio. Provision carried against the portfolio was then deducted to compare the carrying value to the deemed fair value.

The discount rates used range from 19.74% to 21.74%.

Fair value of borrowings (including accrued special commission expense)

The fair value of bank borrowings is based on discounted value of expected future cash flows using the applicable market rates for similar types of instrument as of reporting date. The fair value of Sukuk payable and loans from a government entity at the reporting date are considered equal to their carrying value as the funding was recently raised by the Company. The table below shows the fair value of bank borrowings as at 31 March 2020 and 31 December 2019, respectively.

	31 March 2020 (Unaudited)		31 December 2019 (Audited)	
	Carrying value SR	Fair value SR	Carrying value SR	Fair value SR
<i>Financial liabilities</i>				
Bank borrowings	<u>214,317,118</u>	<u>220,624,091</u>	<u>240,024,652</u>	<u>246,462,977</u>
Sukuk payable	<u>175,148,420</u>	<u>175,148,420</u>	<u>190,276,124</u>	<u>190,276,122</u>
Borrowings from a government entity	<u>32,646,180</u>	<u>32,646,180</u>	<u>36,688,047</u>	<u>36,688,048</u>

Fair Value of Investment at FVOCI

Management believes that the fair value of investment at FVOCI approximates its carrying value.

14 RESTATEMENT

Pursuant to the change in accounting policy during 2019 as set out in note 2, zakat charge for the three-month period 31 March 2019 which was then charged to the interim condensed statement of changes in shareholders' equity has now been restated to the interim condensed statement of comprehensive income.

Consequently, the net profit and total comprehensive income for the comparative period (i.e., 31 March 2019) have been restated after considering the above impact.

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14 RESTATEMENT (continued)

The change in the accounting policy for zakat had the following impacts on the line items of interim condensed statement of comprehensive income:

<i>Financial statement impacted</i>	<i>Account</i>	<i>Before the restatement for the three-month period ended 31 March 2019</i>	<i>Effect of restatement</i>	<i>After the restatement for the three-month period ended 31 March 2019</i>
Interim condensed statement of comprehensive income	Zakat expense	-	988,150	988,150

There is no impact arising on the retained earnings from the revised treatment of zakat, as these are now charged through interim condensed statement of comprehensive income instead of earlier treatment of direct charge to the retained earnings.

15 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES 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 volume which had predated the pandemic. The Company has evaluated 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 potential business disruption due to COVID-19 outbreak that may have on its operations and financial performance. The steps taken by management also include commencing review of credit exposure concentrations at a more granular level such as the economic sectors, regions, country, counterparty etc., collateral protection, timely review and customer credit rating actions and appropriately restructuring loans, where required. These also take into consideration the impacts of government and SAMA support relief programs.

These current events and the prevailing economic condition require the Company to revise certain inputs and assumptions used for the determination of expected credit losses (“ECL”). These would primarily revolve around either adjusting macroeconomic factors used by the Company in estimation of expected credit losses and revisions to the scenario probabilities currently being used by the Company in ECL estimation. The adjustments to macroeconomic factors and scenario weightings resulted in an additional ECL of SR 0.52 million for the Company. 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 judgmental 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, 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 significant corporate exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
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**15 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES AND SAMA PROGRAMS
(continued)**

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 Micro Small and Medium Enterprises (“MSME”) as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program;
- Funding for lending program;
- Loan guarantee program; and
- Point of sale (“POS”) and e-commerce service fee support 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. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This has resulted in the Company recognising a day 1 modification loss of SR 9.1 million as at 31 March 2020 and this has been presented as part of special commission income refer (note 3). In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

In order to offset the modification loss that the Company is expected to incur in deferring the payments, the Company as an SME, received option from their banks to defer payments for 6 months. The benefit of interest free loan from banks has been accounted for in accordance with IFRS 9 requirements which resulted in day 1 gain of SR 7.3 million as at 31 March 2020 and this has been presented as part of special commission income.

As at 31 March 2020, the Company has not participated in any other SAMA’s programs. During April 2020, SAMA has issued a guidance around Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures. The Company will consider the guidance issued and evaluate the accounting impact in Q2 2020 accordingly.

16 FINANCIAL RISK MANAGEMENT

The Company’s activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company’s financial performance. Risk management is carried out by management. The most important types of risk are summarised below.

Credit risk

The Company has strengthened its credit risk management policies to address the fast changing and evolving risks posed by the current circumstances due to COVID-19. These include review of concentrations at granular economic sector, region, counterparty level including consideration of impacts of government and SAMA support, collateral protection, timely review and rating action and appropriately restructuring loans where required. In respect of retail portfolio these include close monitoring of mix of loan types, employer concentrations, the trends in unemployment and the projected levels collateral, delinquencies and timing of government support are going to greatly weigh on performance in this area.

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16 FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The Company's maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as disclosed in the table below.

	31 March 2020 (Unaudited) SR	31 December 2019 (Audited) SR
Cash at bank	99,094,217	156,581,005
Restricted cash deposits	1,873,624	1,873,624
Islamic financing receivables, net	606,914,897	590,418,446
Other assets	8,476,685	8,796,868
	716,359,423	757,669,943

Special commission rate risk

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Company is subject to special commission rate risk on its special commission bearing assets and liabilities, including bank deposits, Islamic financing receivables and borrowings.

The bank borrowings of the Company carry special commission at variable rate while all other borrowings carry fixed rate of special commission. The Company uses derivative financial instruments (special commission rate swap) to hedge the Company's exposure to the fluctuations in special commission rates in respect of some of the borrowings carrying special commission risk at variable rates and therefore management believes that the Company is not exposed to special commission rate risk in respect of such borrowings as well as other fixed rate borrowings as those are not carried at fair values.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Company's statement of comprehensive income relating to the floating rate borrowings for which the Company does not use derivatives for hedging. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net commission income for one year, based on such floating rate borrowings held as at the reporting date. All the exposures are monitored and analysed in major currency concentrations and relevant sensitivities are disclosed in SR.

	31 March 2020 (Unaudited)	
	Change in basis points	Increase (decrease) in net income SR
Saudi Riyals	+50	(286,031)
Saudi Riyals	-50	286,031
	31 March 2019 (Unaudited)	
	Change in basis points	Increase (decrease) in net income SR
Saudi Riyals	+50	(615,447)
Saudi Riyals	-50	615,447

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16 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that bank facilities are available.

The Company is aware of the need to keep a close focus on liquidity management during this period and has enhanced its daily monitoring of liquidity. The Company acknowledges the timely action of SAMA and other government bodies in providing support and assurance to the financial markets.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at the reporting date based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date.

	<i>Within 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Total SR</i>
31 March 2020 (Unaudited)				
Accounts payable, accruals and other liabilities	4,366,294	391,638	515,824	5,273,756
Borrowings*	40,380,403	133,844,882	249,661,837	423,887,122
	<u>44,746,697</u>	<u>134,236,520</u>	<u>250,177,661</u>	<u>429,160,878</u>
	<i>Within 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Total SR</i>
31 December 2019 (Audited)				
Accounts payable, accruals and other liabilities	5,104,730	755,513	515,824	6,376,067
Borrowings*	66,081,047	195,791,390	205,116,386	466,988,823
	<u>71,185,777</u>	<u>196,546,903</u>	<u>205,632,210</u>	<u>473,364,890</u>

* Accrued special commission expense as at the reporting date has been included as part of borrowings for the purpose of the above disclosure.

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments of the Company will fluctuate due to changes in foreign exchange rates. The Company is not subject to fluctuations in foreign exchange rates in the normal course of its business as neither it undertakes significant transactions nor does it have any significant monetary assets and liabilities denominated in foreign currency.

17 EVENTS AFTER REPORTING DATE

There have been no events subsequent to the reporting date that would significantly affect the amounts reported in the interim condensed financial statements as at and for the three month period ended 31 March 2020.

18 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements have been approved by the Board of Directors on 19 Ramadan 1441H (corresponding to 12 May 2020).