Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR’S REVIEW REPORT

FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 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 30 September 2020 and the related interim condensed statement of comprehensive income for the three-month and nine-month periods ended 30 September 2020 and interim condensed statement of changes in shareholders' equity and cash flows for the nine-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. AlMubarak
Certified Public Accountant
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PROFESSIONAL LICENCE No. 45

Riyadh: 8 Rabi Awal 1442H
(25 October 2020)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three-month and nine-month periods ended 30 September 2020

`	Notes	*For the three-month period ended 30 September* **2020 (Unaudited) SR**	*2019 (Unaudited) SR*	*For the nine-month period ended 30 September* **2020 (Unaudited) SR**	*2019 (Unaudited) SR*
Special commission income	3	**22,420,599**	28,565,446	**69,115,094**	80,760,343
Special commission expense		**(585,079)**	(8,033,600)	**(11,728,862)**	(23,960,857)
NET SPECIAL COMMISSION INCOME		**21,835,520**	20,531,846	**57,386,232**	56,799,486
Other income, net	4	**4,732,657**	3,624,696	**11,206,847**	11,530,252
General and administration expenses	5	**(9,644,140)**	(7,574,115)	**(25,568,413)**	(25,157,446)
Impairment losses on Islamic financing receivables	6	**(2,832,446)**	(9,885,359)	**(13,828,570)**	(16,847,646)
INCOME BEFORE ZAKAT		**14,091,591**	6,697,068	**29,196,096**	26,324,646
Zakat	8	**(2,875,796)**	(1,433,212)	**(5,957,117)**	(3,457,206)
NET INCOME FOR THE PERIOD		**11,215,795**	5,263,856	**23,238,979**	22,867,440
OTHER COMPREHENSIVE INCOME		-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**11,215,795**	5,263,856	**23,238,979**	22,867,440
Basic and diluted earnings per share		**0.40**	**0.21**	**0.83**	0.90

Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 September 2020

	Notes	***30 September 2020 (Unaudited) SR***	*31 December 2019 (Audited) SR*
ASSETS			
Cash and cash equivalents		**99,825,201**	156,581,005
Restricted cash deposits		**1,873,624**	1,873,624
Prepayments and other assets		**10,934,428**	9,949,969
Islamic financing receivables, net	6	**728,535,090**	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		**4,363,642**	5,549,087
Property and equipment		**4,315,513**	4,889,813
Intangible assets		**5,399,684**	4,199,607
TOTAL ASSETS		**860,348,994**	778,563,363
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable, accruals and other liabilities	7	**7,926,315**	9,557,332
Provision for zakat	8	**7,272,821**	3,137,744
Borrowings	9	**524,025,500**	466,988,823
Lease liabilities		**3,687,152**	5,182,133
Employees' terminal benefits		**2,882,187**	2,381,291
TOTAL LIABILITIES		**545,793,975**	487,247,323
SHAREHOLDERS' EQUITY			
Share capital	10,11	**280,500,000**	255,000,000
Statutory reserve		**9,793,700**	9,793,700
Retained earnings		**24,261,319**	26,522,340
TOTAL SHAREHOLDERS' EQUITY		**314,555,019**	291,316,040
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**860,348,994**	778,563,363

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

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine-month period ended 30 September 2020

	Share capital SR	*Statutory reserve SR*	*Proposed increase in share capital SR*	*Retained earnings SR*	*Total SR*
For the nine-month period ended 30 September 2019					
Balance at 1 January 2019	228,960,000	6,882,184	-	26,358,697	262,200,881
Proposed increase in capital	-	-	26,040,000	(26,040,000)	-
Net profit for the period	-	-	-	22,867,440	22,867,440
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	22,867,440	22,867,440
Balance at 30 September 2019	228,960,000	6,882,184	26,040,000	23,186,137	285,068,321
For the nine-month period ended 30 September 2020					
Balance at 1 January 2020	255,000,000	9,793,700	-	26,522,340	291,316,040
Increase in share capital (note 11)	25,500,000	-	-	(25,500,000)	-
Net profit for the period	-	-	-	23,238,979	23,238,979
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	23,238,979	23,238,979
Balance at 30 September 2020	**280,500,000**	**9,793,700**	-	**24,261,319**	**314,555,019**

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

INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the nine-month period ended 30 September 2020

	Notes	**2020 (Unaudited) SR**	2019 (Unaudited) SR
OPERATING ACTIVITIES			
Income before zakat		**29,196,096**	26,324,646
Non-cash adjustment to reconcile profit before zakat to net cash flows:			
Impairment losses on Islamic financing receivables	6	**13,828,570**	8,917,049
Modification loss on Islamic financing receivables	3	**4,224,641**	-
Modification gain on bank borrowings	3	**(2,744,072)**	-
Depreciation and amortisation		**1,342,965**	2,428,261
Depreciation of right of use assets		**1,185,445**	-
Finance charge on lease		**240,019**	-
Provision for employees' terminal benefit		**530,149**	395,370
Operating cash flows before working capital changes		**47,803,813**	38,065,326
Working capital adjustments:			
Islamic financing receivables, net		**(156,169,855)**	(102,605,473)
Prepayments and other assets		**(984,459)**	1,906,137
Repossessed asset held for sale		-	(4,208,962)
Accounts payable, accruals and other liabilities		**(1,631,017)**	(3,094,402)
Cash used in operations		**(110,981,518)**	(69,937,374)
Zakat paid	8	**(1,822,040)**	(3,457,206)
Lease liabilities paid		**(1,735,000)**	(1,589,196)
Employees' terminal benefits paid		**(29,253)**	(56,587)
Net cash used in operating activities		**(114,567,811)**	(75,040,363)
INVESTING ACTIVITIES			
Purchase of property and equipment		**(277,421)**	(523,689)
Purchase of intangible assets		**(1,691,321)**	(732,296)
Net cash used in investing activities		**(1,968,742)**	(1,255,985)
FINANCING ACTIVITIES			
Proceeds from borrowings		**215,000,000**	149,315,727
Repayment of borrowings		**(155,219,251)**	(80,738,489)
Net cash from financing activities		**59,780,749**	68,577,238
DECREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD		**(56,755,804)**	(7,719,110)
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		**99,825,201**	76,472,054
OTHER SUPPLEMENTARY INFORMATION			
Special commission received		**73,595,281**	77,765,568
Special commission paid		**(13,539,733)**	(23,960,857)
NON-CASH TRANSACTIONS:			
Right-to-use assets		-	6,733,695
Prepaid rent (adjustment upon adoption of IFRS 16)		-	(558,836)
Lease obligations		-	(6,174,859)

1 ACTIVITIES

Morabaha Marina Financing Company (the "Company") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia 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
Kingdom of Saudi Arabia

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 have been 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.

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, as it is the functional currency of the Company and are rounded off to the nearest thousands.

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

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.

2 BASIS OF PREPARATION (continued)

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.

3 SPECIAL COMMISSION INCOME

Special commission income comprises of income from the following:

	For the three-month period ended 30 September		*For the nine-month period ended 30 September*	
	2020 (Unaudited) SR	*2019 (Unaudited) SR*	***2020 (Unaudited) SR***	*2019 (Unaudited) SR*
Tawarruq	**21,126,219**	27,519,473	**69,242,943**	77,553,788
Ijara	**317,673**	686,720	**1,146,911**	1,690,375
Murabaha	**20,977**	359,253	**205,809**	1,516,180
Modification loss on Islamic financing receivables, net of unwinding of modification loss	**526,226**	-	**(4,224,641)**	-
Modification gain on bank borrowings, net of unwinding of modification gain	**429,504**	-	**2,744,072**	-
	22,420,599	28,565,446	**69,115,094**	80,760,343

4 OTHER INCOME, NET

	For the three-month period ended 30 September		*For the nine-month period ended 30 September*	
	2020 (Unaudited) SR	*2019 (Unaudited) SR*	***2020 (Unaudited) SR***	*2019 (Unaudited) SR*
Recovery of Islamic financing receivables written off	**2,640,624**	2,105,658	**6,500,039**	5,775,855
Income from early settlement fees	**1,918,844**	641,925	**3,162,848**	2,415,736
Income from short term deposits	**100,778**	877,113	**1,016,309**	3,103,661
Others	**72,411**	-	**527,651**	235,000
	4,732,657	3,624,696	**11,206,847**	11,530,252

5 GENERAL AND ADMINISTRATION EXPENSES

	For the three-month period ended 30 September		*For the nine-month period ended 30 September*	
	2020 (Unaudited) SR	*2019 (Unaudited) SR*	***2020 (Unaudited) SR***	*2019 (Unaudited) SR*
Salaries and employee related costs	**5,977,762**	4,343,053	**15,422,394**	14,990,558
Depreciation and amortisation	**868,152**	832,776	**2,528,410**	2,428,261
Professional fee	**628,495**	523,759	**1,879,696**	1,853,452
Bank charges	**258,553**	372,409	**1,012,739**	1,116,180
Insurance charges	**260,125**	186,137	**960,416**	959,342
Utilities expense	**156,214**	168,736	**466,643**	364,077
Repair and maintenance	**113,156**	170,289	**447,683**	422,472
Rent	**45,000**	90,001	**135,000**	104,168
Other expenses	**1,336,683**	886,955	**2,715,432**	2,918,936
	9,644,140	7,574,115	**25,568,413**	25,157,446

6 ISLAMIC FINANCING RECEIVABLES, NET

	Tawarruq receivables		*Ijara receivables*		*Murabaha receivables*		*Total*	
	30 September 2020 (Unaudited) SR	*31 December 2019 (Audited) SR*	***30 September 2020 (Unaudited) SR***	*31 December 2019 (Audited) SR*	***30 September 2020 (Unaudited) SR***	*31 December 2019 (Audited) SR*	***30 September 2020 (Unaudited) SR***	*31 December 2019 (Audited) SR*
Gross Islamic financing receivables	**990,285,543**	823,021,199	**41,984,302**	27,189,274	**502,314**	4,742,050	**1,032,772,159**	854,952,523
Less: Unrealised profit	**(265,453,493)**	(234,009,116)	**(11,117,072)**	(7,338,512)	**(31,299)**	(393,417)	**(276,601,864)**	(241,741,045)
	724,832,050	589,012,083	**30,867,230**	19,850,762	**471,015**	4,348,633	**756,170,295**	613,211,478
Less: Allowance for impairment losses	**(27,485,825)**	(22,363,241)	**(117,988)**	(326,313)	**(31,392)**	(103,478)	**(27,635,205)**	(22,793,032)
Islamic financing receivables, net	**697,346,225**	566,648,842	**30,749,242**	19,524,449	**439,623**	4,245,155	**728,535,090**	590,418,446

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

6 ISLAMIC FINANCING RECEIVABLES, NET (continued)

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

	30 September 2020 (Unaudited) SR	*31 December 2019 (Audited) SR*
Neither past due nor impaired	**538,009,009**	345,601,008
Past due but not impaired	**190,526,081**	244,817,438
Past due and impaired	**27,635,205**	22,793,032
	756,170,295	613,211,478

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:

	30 September 2020 (Unaudited) SR	*31 December 2019 (Audited) SR*
Performing	**641,612,987**	531,063,131
Non-performing	**114,557,308**	82,148,347
	756,170,295	613,211,478

Movement in the allowance for impairment losses were as follows:

	For the nine-month period ended 30 September 2020 (Unaudited) SR	*For the year ended 31 December 2019 (Audited) SR*
At beginning of the period / year	**22,793,031**	13,194,852
Charge for the period / year	**13,828,570**	20,144,035
Written-off during the period / year	**(8,986,396)**	(10,545,856)
At end of the period / year	**27,635,205**	22,793,031

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 is recognized at fair value amounting to SR 4.2 million which exceeds the outstanding Tawarruq receivables.

7 ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	30 September 2020 (Unaudited) SR	*31 December 2019 (Audited) SR*
Accrued expenses	**3,005,009**	4,201,046
Accounts payable	**2,351,624**	1,596,276
Accrued special commission expenses	**2,071,974**	3,181,265
Others	**497,708**	578,745
	7,926,315	9,557,332

8 ZAKAT

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

	For the nine month period ended 30 September 2020 (Unaudited) SR	*For the year ended 31 December 2019 (Audited) SR*	*For the nine-month period ended 30 September 2019 (Unaudited) SR*
At beginning of the period / year	**3,137,744**	-	-
Charge for the period / year	**5,957,117**	6,611,673	3,457,206
Paid during the period / year	**(1,822,040)**	-	-
Transfer to prepaid zakat	-	(3,473,929)	-
Adjustment against prepaid zakat	-	-	(3,457,206)
At end of the period / year	**7,272,821**	3,137,744	-

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.

9 BORROWINGS

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

		30 September 2020 (Unaudited) SR	*31 December 2019 (Audited) SR*
A	Bank borrowings	**190,140,466**	240,024,652
B	Sukuk payable	**145,292,518**	190,276,124
C	Borrowings from government entities	**188,592,516**	36,688,047
		524,025,500	466,988,823
	Current portion	**241,305,130**	261,872,437
	Non-current portion	**282,720,370**	205,116,386
		524,025,500	466,988,823

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

	30 September 2020 (Unaudited) SR	*31 December 2019 (Audited) SR*
Islamic financing (see notes i and ii below)	**191,113,778**	241,962,159
Less: unamortised upfront charges	**(973,312)**	(1,937,507)
	190,140,466	240,024,652
Current portion	**110,684,986**	185,184,496
Non-current portion	**79,455,480**	54,840,156
	190,140,466	240,024,652

Islamic financing shown above includes:

i) Four (2019: four) revolving Islamic facilities for a total amount of SR 86.2 million (2019: SR 95.7 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 upto 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) Five (2019: Seven) other Islamic facilities for a total amount of SR 103.9 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.

9 BORROWINGS (continued)

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

	30 September 2020 (Unaudited) SR	*31 December 2019 (Audited) SR*
Islamic financing through Sukuk	**149,000,000**	195,700,000
Less: unamortised upfront charges	**(3,707,482)**	(5,423,876)
	145,292,518	190,276,124
Current portion	**62,266,667**	58,044,282
Non-current portion	**83,025,851**	132,231,842
	145,292,518	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:

	30 September 2020 (Unaudited) SR	*31 December 2019 (Audited) SR*
Current portion	**68,353,477**	18,643,661
Non-current portion	**120,239,039**	18,044,386
	188,592,516	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.

During the period, the Company has participated in Funding for lending program by SAMA and the Company received loans amounting to total of SR 85 million (note 15). The loans has to be repaid in monthly instalments commencing from October 2020 and maturing on August 2023.

9 BORROWINGS (continued)

The loans received by the Company from the government entity carry special commission at rates significantly lower than the currently prevailing market rates. These loans 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 being the impact of the "lower than market value" loans obtained by the Company has been identified and accounted for as "government grant" and has initially been recorded as income and such benefit is being recognised in statement of comprehensive income of the Company.

10 SHARE CAPITAL

Share capital is divided into 28.05 million shares (2019: 25.50 million shares) of SR 10 each.

11 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.

During the period, the capital increase was executed pursuant to the Extra Ordinary General Meeting resolution dated 28 Sha'aban 1441 H (corresponding to 21 April 2020) and SAMA approval numbered 41049099 dated 15 Rajab 1441H (corresponding 10 March 2020). The legal formalities of the increase in share capital were completed in second quarter of 2020.

12 RELATED PARTIES TRANSACTIONS AND BALANCES

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

		Amount of transactions			
		For the three-month period ended 30 September		*For the nine-month period ended 30 September*	
Related parties	*Nature of transactions*	***2020 (Unaudited) SR***	*2019 (Unaudited)* SR	***2020 (Unaudited) SR***	*2019 (Unaudited) SR*
Key management personnel	Compensation – salaries and other incentive	**690,000**	540,000	**2,770,000**	1,179,000
Board remuneration	Remuneration	-	1,010,000	**1,010,000**	1,010,000

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

		30 September 2020 (Unaudited) SR	*31 December 2019 (Audited) SR*
Key management personnel	Islamic financing receivables	**1,660,902**	1,882,236

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, accrued expenses 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.

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.

	30 September 2020 (Unaudited) SR	*31 December 2019 (Audited) SR*
Financial assets		
Cash and cash equivalents	**99,825,201**	156,581,005
Restricted cash deposits	**1,873,624**	1,873,624
Other assets (excluding special commission receivable)	**7,453,597**	8,168,826
Financial liabilities		
Accounts payables, accruals and other liabilities (excluding accrued special commission expense)	**5,854,342**	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.

13 FINANCIAL INSTRUMENTS AND FAIR VALUE (continued)

Fair value of Islamic financing receivables

	30 September 2020		*31 December 2019*	
	Carrying value (Unaudited) SR	***Fair Value (Unaudited) SR***	*Carrying Value (Audited) SR*	*Fair Value (Audited) SR*
Financial assets				
Islamic financing receivables	**728,535,090**	**760,056,515**	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.

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 19.07%, and the average effective rate for this same portfolio was 15.63%, resulting in a lift factor of 0.92x.

Deemed premium for each category has been added to the base quoted rate, and the lift factor of 0.92x 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 19.57% to 21.57%.

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 30 September 2020 and 31 December 2019, respectively.

	30 September 2020		*31 December 2019*	
	Carrying value (Unaudited) SR	***Fair value (Unaudited) SR***	*Carrying value (Audited) SR*	*Fair value (Audited) SR*
Financial liabilities				
Bank borrowings	**190,140,466**	**198,360,553**	240,024,652	246,462,977
Sukuk payable	**145,292,518**	**145,292,518**	190,276,124	190,276,122
Borrowings from a government entity	**188,592,516**	**188,592,516**	36,688,047	36,688,048

Fair Value of Investment at FVOCI

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

14 RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and foreign currency 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'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.

	30 September 2020 (Unaudited) SR	*31 December 2019 (Audited) SR*
Cash at bank	**99,798,948**	156,552,753
Restricted cash deposits	**1,873,624**	1,873,624
Islamic financing receivables	**728,535,090**	590,418,446
Other assets	**7,654,597**	8,796,868
	837,862,259	757,641,691

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.

	30 September 2020 (Unaudited)	
	Change in basis points	***Increase (decrease) in net income SR***
Saudi Riyals	**+50**	**(688,988)**
Saudi Riyals	**-50**	**688,988**

14 RISK MANAGEMENT (continued)

Special commission rate risk (continued)

	30 September 2019 (Unaudited)	
	Change in basis points	*Increase (decrease) in net income SR*
Saudi Riyals	+50	(1,112,948)
Saudi Riyals	-50	1,112,948

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.

	Within 3 months	***3 to 12 months***	***1 to 5 years***	***Total SR***
30 September 2020 (Unaudited)				
Accounts payable, accruals and other liabilities	**3,048,150**	**2,426,746**	**515,824**	**5,990,720**
Borrowings*	**36,742,546**	**206,498,182**	**282,720,370**	**525,961,098**
	39,790,696	**208,924,928**	**283,236,194**	**531,951,818**

	Within 3 months	*3 to 12 months*	*1 to 5 years*	*Total SR*
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
	71,185,777	196,546,903	205,632,210	473,364,890

* 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 not does it have any significant monetary assets and liabilities denominated in foreign currency.

15 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES AND SAMA PROGRAMS

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are beginning to experience a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Company continues to be cognizant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. This has entailed reviewing specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required.

The Company has also revised certain inputs and assumptions used for the determination of expected credit losses ("ECL"). The revisions mainly revolved around:

- adjusting macroeconomic factors/inputs used by the Company in its ECL model including observed default rates;
- revisions to the scenario probabilities, and
- refinement of staging criteria in light of the SAMA support measures and to effectively identify exposures where lifetime ECL losses may have been triggered despite repayment holidays.

The Company's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement exercise. 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.

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 launched by SAMA, the Company was required to defer payments for six months on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September for a period of six months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of special commission income. The Company continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk.

Further to the above, on 1 September 2020, SAMA extended the deferred payments program by allowing additional three months payment deferrals for eligible MSMEs until 14 December 2020. The Company has affected the payment reliefs by deferring the instalments falling due within the period from 15 September 2020 to 14 December 2020 for a period of additional three months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of the arrangement. This resulted in the Company recognizing an additional modification loss of SR 4.1 million during the period ended 30 September 2020.

15 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES AND SAMA PROGRAMS (continued)

Since the inception of the deferred payments program by SAMA and by the end of Q3 2020, the Company has recognised SR 13.2 million of related modification losses of which SR 9 million have been unwound.

In order to compensate all the related cost that the Company is expected to incur under the SAMA program, 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 in the statement of income as at 31 March 2020. On 1 September 2020, SAMA extended the program until 14 December 2020 and accordingly Company recognised an additional modification gain of SR 3.1 million during the period ended 30 September 2020.

During the period, the Company has participated in Funding for lending program and received total of SR 85 million funding from SAMA which is interest free funding with varying maturities, which qualify as government grants. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements and recognized SR 7.8 million as day 1 gain.

The management has exercised certain judgements in the recognition and measurement of above modification loss, gain and government grant.

16 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 nine month period ended 30 September 2020.

17 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements have been approved by the Board of Directors on 8 Rabi Awal 1442H (corresponding to 25 October 2020).