ALRAEDAH FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
AND INDEPENDENT AUDITOR'S REVIEW REPORT
FOR THE THREE AND SIX MONTHS ERIOD
<u>ENDED 30 JUNE 2020</u>

INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND SIX MONTH PERIOD ENDED 30 JUNE 2020

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Independent Auditor's Review Report

To the shareholders of
Alraedah Finance Company
(A Saudi Closed Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Alraedah Finance Company (the "Company"), a Saudi Closed Joint Stock Company as at 30 June 2020 and the related interim condensed statements of comprehensive income for the three and six month periods then ended, and the related interim condensed statements of changes in shareholders' equity and cash flows for the six months period then ended and a summary of significant accounting policies and other explanatory notes from (1) to (16).

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") that is 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 condensed financial statements 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 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 in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

Other matter

The financial statements of the Company for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those financial statements on 14 May 2020.

For Dr. Mohamed Al-Amri & Co,

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س. ت : ١٠١٠٤٣٣٩٨٢
Riyadh
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

Gihad Al-Amri
Certified Public Accountant
Registration No. 362

Riyadh, on 27 July 2020 (G)
Corresponding to: 6 Dhual Hijja 1441 (H)

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE AND SIX MONTH PERIOD ENDED 30 JUNE 2020

(Saudi Riyals)

	Note	For the three months period ended 30 June		For the six months period ended 30 June	
		2020	2019	**2020**	2019
OPERATING INCOME					
Special commission income from Ijara and Murabaha contracts		**9,544,111**	12,473,293	**15,149,181**	25,030,430
Finance (charges) / gains, net		**172,565**	(2,678,779)	**(2,063,110)**	(6,116,118)
		9,716,676	9,794,514	**13,086,071**	18,914,312
Application fees and other income		**391,349**	620,269	**1,167,176**	1,120,292
TOTAL OPERATING INCOME, NET		**10,108,025**	10,414,783	**14,253,247**	20,034,604
OPERATING EXPENSES					
General and administrative expenses	4	**(3,656,988)**	(3,988,742)	**(7,158,312)**	(7,932,503)
Selling and marketing expenses	5	**(972,483)**	(968,512)	**(1,809,616)**	(1,893,995)
Impairment loss on Ijara and Murabaha receivables	8 (b)	**(886,775)**	(2,551,207)	**(3,092,315)**	(3,000,000)
Depreciation and amortisation		**(491,976)**	(465,084)	**(973,915)**	(927,833)
PROFIT BEFORE ZAKAT		**4,099,803**	2,441,238	**1,219,089**	6,280,273
Zakat	6	**(320,145)**	(244,123)	**(368,915)**	(628,027)
PROFIT FOR THE PERIOD		**3,779,658**	2,197,115	**850,174**	5,652,246
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**-**	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**3,779,658**	2,197,115	**850,174**	5,652,246

The attached notes 1 to 16 form part of these interim condensed financial statements.

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020
(Saudi Riyals)

	Note	30 June 2020 (Unaudited)	31 December 2019 (Audited)
ASSETS			
Cash and bank balances	7	**85,951,106**	9,683,664
Ijara and Murabaha receivables	8(a)	**293,890,635**	275,415,940
Prepayments and other assets		**20,334,606**	6,867,728
Investment held at fair value through other comprehensive income		**892,850**	892,850
Right-of-use asset		**2,267,823**	2,771,783
Property and equipment		**472,334**	304,506
Intangible assets		**1,349,867**	860,521
Restricted cash deposits		**-**	1,237,503
TOTAL ASSETS		**405,159,221**	298,034,495
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable and accruals		**23,698,008**	17,838,192
Payable to SAMA	14	**77,111,639**	-
Refundable to SAMA	14	**19,546,893**	-
Zakat payable	6	**1,762,819**	1,448,889
Lease liability		**1,959,350**	1,881,954
Borrowings	10	**102,794,445**	99,548,259
Employees' terminal benefits		**1,185,747**	1,067,055
TOTAL LIABILITIES		**228,058,901**	121,784,349
SHAREHOLDERS' EQUITY			
Share capital	9	**150,000,000**	150,000,000
Statutory reserve		**2,243,819**	2,243,819
Retained earnings		**24,856,501**	24,006,327
TOTAL SHAREHOLDERS' EQUITY		**177,100,320**	176,250,146
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**405,159,221**	298,034,495

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020

(Saudi Riyals)

	Share capital	**Statutory reserve**	**Retained earnings**	**Total**
For the six month period ended 30 June 2019 (unaudited)				
Balance as at 1 January 2019	150,000,000	1,418,154	16,575,345	167,993,499
Profit for the period	-	-	5,652,246	5,652,246
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	5,652,246	5,652,246
Transfer to statutory reserve	-	565,225	(565,225)	-
Balance as at 30 June 2019	150,000,000	1,983,379	21,662,366	173,645,745
For the six month period ended 30 June 2020 (unaudited)				
Balance as at 1 January 2020	**150,000,000**	**2,243,819**	**24,006,327**	**176,250,146**
Profit for the period	**-**	**-**	**850,174**	**850,174**
Other comprehensive income for the period	**-**	**-**	**-**	**-**
Total comprehensive income for the period	**-**	**-**	**850,174**	**850,174**
Balance as at 30 June 2020	**150,000,000**	**2,243,819**	**24,856,501**	**177,100,320**

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020
(Saudi Riyals)

	Note	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before zakat		**1,219,089**	6,280,273
Adjustments for:			
Government grant income		**(4,091,468)**	-
Impairment loss on Ijara and Murabaha receivables	8(b)	**3,092,315**	3,000,000
Depreciation on property and equipment		**138,732**	169,359
Depreciation on right-of-use asset		**503,960**	503,960
Amortisation of intangible assets		**331,223**	254,514
Provision for employees' terminal benefits		**218,222**	234,073
Finance charge on lease		**77,396**	100,766
Unrealised gain on derivatives		**-**	(61,609)
Amortisation of loan facility fee		**-**	250,000
Operating cash flows before working capital adjustments		**1,489,469**	10,731,336
Working capital adjustments:			
Restricted cash deposits		**1,237,503**	219,871
Ijara and Murabaha receivables		**(21,567,010)**	(86,264,421)
Prepayments and other assets		**(13,466,878)**	(889,517)
Accounts payable and accruals		**5,859,816**	10,316,450
Cash used in operating activities		**(26,447,100)**	(65,886,281)
Employees' terminal benefits paid		**(99,530)**	(34,523)
Zakat paid	6	**(54,985)**	(68,729)
Net cash used in operating activities		**(26,601,615)**	(65,989,533)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property and equipment		**(306,560)**	(7,524)
Purchase of intangible assets		**(820,569)**	(84,552)
Net cash used in investing activities		**(1,127,129)**	(92,076)
CASH FLOW FROM FINANCING ACTIVITIES			
Cash received from SAMA	14	**100,750,000**	-
Proceeds from borrowings		**20,000,000**	78,620,613
Repayment of borrowings		**(16,753,814)**	(16,092,607)
Net cash from financing activities		**103,996,186**	62,528,006
Net increase / (decrease) in cash and bank balances		**76,267,442**	(3,553,603)
Cash and bank balances at the beginning of the period		**9,683,664**	52,688,909
Cash and bank balances at the end of the period	7	**85,951,106**	49,135,306
Supplementary information:			
Special commission income from Ijara and Murabaha contracts received		**14,169,757**	11,303,932
Non-cash transactions:			
Right-of-use asset recognized		**-**	3,779,705
Prepaid rent (adjustment upon adoption of IFRS 16)		**-**	(849,098)
Lease liability		**-**	2,930,607

1 STATUS AND NATURE OF ACTIVITIES

Alraedah Finance Company, a Saudi Closed Joint Stock Company (the "Company"), registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010314982 dated 21 Ramadan 1432 (H), corresponding to 21 August 2011 (G).

The Company has one branch in Buriydah under commercial registration number 1131056928 dated 24 Shaban 1437 (H), corresponding to 31 May 2016 (G) and one branch in Dammam under commercial registration number 2051222088 dated 17 Dhul Qa'dah 1439 (H), corresponding to 30 July 2018 (G).

The principal activity of the Company is to provide finance lease and finance for small and medium entities in the form of Ijara and Murabaha in accordance with the approval from Saudi Arabian Monetary Authority ("SAMA") numbered 43/ASH/201602 issued on 30 Rabi Thani 1437 (H), corresponding to 9 February 2016 (G).

The registered address of the Company is 3rd Floor, Tower B, Olaya Towers, Olaya Street, P.O. Box 86875, Riyadh, 11632, Kingdom of Saudi Arabia.

2 BASIS OF PREPARATION

These interim condensed financial statements 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 and disclosures 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 ("SR"), which is also the functional currency of the Company.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Significant accounting policies

The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with IFRSs as endorsed in KSA. In addition, results for the six-month period ended 30 June 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

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 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.

(Saudi Riyals)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other than the above, 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, except for the adoption of new standards effective as of 1 January 2020. 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 the Company.

4 GENERAL AND ADMINSTRATIVE EXPENSES

	For the three months period ended 30 June		**For the six months period ended 30 June**	
	2020 (Unaudited)	2019 (Unaudited)	**2020 (Unaudited)**	2019 (Unaudited)
Salaries and employees' related cost	**2,222,555**	2,814,446	**4,546,238**	5,730,655
Professional fees	**450,000**	454,778	**912,000**	904,778
Utilities expense	**240,000**	66,721	**310,000**	127,871
Health insurance expense	**98,016**	120,279	**225,663**	241,058
Sharia board fee	**36,000**	36,000	**72,000**	72,000
Rent	**7,080**	28,749	**49,168**	59,166
Others	**603,337**	467,769	**1,043,243**	796,975
	3,656,988	3,988,742	**7,158,312**	7,932,503

5 SELLING AND MARKETING EXPENSES

	For the three months period ended 30 June		**For the six months period ended 30 June**	
	2020 (Unaudited)	2019 (Unaudited)	**2020 (Unaudited)**	2019 (Unaudited)
Salaries and employees' related cost	**840,398**	607,218	**1,514,080**	1,114,128
Commission	**132,085**	361,294	**295,536**	779,867
	972,483	968,512	**1,809,616**	1,893,995

(Saudi Riyals)

6 ZAKAT

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

	30 June 2020 (Unaudited)	31 December 2019 (Audited)	30 June 2019 (Unaudited)
At the beginning of the period / year	**1,448,889**	3,869,766	3,869,766
Provided during the period / year	**368,915**	1,217,595	628,027
Adjustment relating to prior years (see note below)	**-**	(3,569,741)	-
Paid during the period / year	**(54,985)**	(68,731)	(68,729)
At the end of the period / year	**1,762,819**	1,448,889	4,429,064

Status of assessments
As at 30 June 2020, the Company had filed its zakat returns with the General Authority of Zakat and Tax ("GAZT") for all years up to 2018. Zakat return for 2019 was submitted subsequently on 6 July 2020.

In November 2019, the GAZT issued the zakat and withholding tax assessments for the years 2014 and 2015 amounting to SR 7.2 million. The Company submitted the appeal letters against the above GAZT assessments which GAZT accepted. Accordingly, the Company adjusted the previously kept additional zakat provision of SR 3.6 million for the said years.

Zakat returns for the years 2012, 2013, 2018 and 2019 are still under review by GAZT.

7 CASH AND BANK BALANCES

For the purpose of the interim condensed statement of cash flows, cash and cash equivalents are comprised of the following:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Bank balances – current account / cash and cash equivalents	**85,951,106**	9,683,664

8 IJARA AND MURABAHA RECEIVABLES

Ijara and Murabaha receivables have an original term period between 1 to 5 years.

8 (a) Total receivables

	30 June 2020 (Unaudited)			31 December 2019 (Audited)		
	Ijara	**Murabaha**	**Total**	Ijara	Murabaha	Total
Gross receivables	**7,049,902**	**352,209,751**	**359,259,653**	7,063,330	335,795,074	342,858,404
Less: unearned finance income	**(5,378,495)**	**(55,443,837)**	**(60,822,332)**	(5,381,207)	(53,255,707)	(58,636,914)
	1,671,407	**296,765,914**	**298,437,321**	1,682,123	282,539,367	284,221,490
Less: provision for impairment losses	**-**	**(4,546,686)**	**(4,546,686)**	(10,713)	(8,794,837)	(8,805,550)
Net receivables	**1,671,407**	**292,219,228**	**293,890,635**	1,671,410	273,744,530	275,415,940

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

Murabaha receivables include the balance due from related party (note 11).

(Saudi Riyals)

8 (b) Movement in provision for impairment losses

	30 June 2020 (Unaudited)	31 December 2019 (Audited)	30 June 2019 (Unaudited)
Balance at the beginning of the period/year	**8,805,550**	6,732,473	6,732,473
Impairment charge for the period/year	**3,092,315**	20,228,735	3,000,000
Written off during the period/year	**(7,351,179)**	(18,155,658)	(151,918)
Balance at the end of the period/year	**4,546,686**	8,805,550	9,580,555

8 (c) Expected maturity

The expected maturity of the gross Ijara and Murabaha receivables is as follows:

	30 June 2020 (Unaudited)			31 December 2019 (Audited)		
	Ijara	**Murabaha**	**Total**	Ijara	Murabaha	Total
Within 1 year	**1,671,407**	**194,296,710**	**195,968,117**	1,682,123	223,441,479	225,123,602
1 - 2 years	**-**	**40,786,622**	**40,786,622**	-	44,089,421	44,089,421
2 - 3 years	**-**	**59,645,563**	**59,645,563**	-	11,118,295	11,118,295
3 - 4 years	**-**	**2,037,019**	**2,037,019**	-	3,890,172	3,890,172
Total	**1,671,407**	**296,765,914**	**298,437,321**	1,682,123	282,539,367	284,221,490

8 (d) Aging of receivables (past due but not impaired)

As at reporting date, the aging of past due but not impaired receivables are as follows:

	< 30 days	*30 - 60 days*	*61 – 90 days*	*91 – 120 days*	*121 – 180 days*	*Above 180 days*	*Total*
30 June 2020 (Unaudited)							
Receivables	**3,040,089**	**615,188**	**6,146,239**	**3,963,869**	**7,309,991**	**71,997,141**	**93,072,517**
31 December 2019 (Audited)							
Receivables	20,848,470	15,102,796	27,784,103	609,657	1,669,833	56,757,156	122,772,015

8 (e) Economic Sector risk concentration for the receivables is as follows

Sectors	**30 June 2020 (Unaudited)**	31 December 2019 (Audited)
Services	**50.37%**	58.56%
Contracting	**27.83%**	18.60%
Retail business	**12.41%**	9.51%
Trading	**6.64%**	6.81%
Industrial	**2.75%**	6.52%

8 (f) Collateral

The Company in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the receivables. These collaterals mostly include vehicles, machinery and real estate. The collaterals are held against receivables and are managed against relevant exposures at their net realisable values. The value of the collateral as at 30 June 2020 amounted to SR 400.85 million (unaudited) [31 December 2019: SR 416.77 million (audited)] out of which the Company has pledged SR nil as at 30 June 2020 (unaudited) [31 December 2019: SR 25.67 million (audited)] against the loan facility from Gulf International Bank (see note 10).

(Saudi Riyals)

9 SHARE CAPITAL

Share capital amounted to SR 150,000,000 as at 30 June 2020 and 31 December 2019 consisting of 15,000,000 shares of SR 10 each which are fully paid.

10 BORROWINGS

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

		30 June 2020 (Unaudited)	31 December 2019 (Audited)
A	Bank borrowings	**-**	9,374,362
B	Borrowings from a government entity	**102,794,445**	90,173,897
		102,794,445	99,548,259
Current portion		**12,429,519**	31,071,558
Non-current portion		**90,364,926**	68,476,701
		102,794,445	99,548,259

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

A - Bank borrowings
During the period, the Company has repaid its total outstanding bank borrowings to Gulf International Bank.

B - Borrowings from a government entity
In prior years, the Company obtained loans from a government entity amounting to SR 125 million. This is repayable in monthly instalments that commenced in January 2019, with the final instalment due in June 2023. In April 2020, the government entity deferred its payments against the above mentioned loans for the one year. 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. This resulted in the Company incurring modification gain of SR 2.44 million (unaudited) which is included in "finance (charges) / gains, net" line item. On 9 June 2020, Company obtained further loan amounting to SR 20 million repayable in monthly instalments commencing from January 2021, with the final instalment due in December 2023.

The above loans received by the Company from a government entity carries a fixed special commission rate that is significantly lower than currently prevailing market rate. This loan provided to the Company carries a number of conditions, one of which is that equivalent loans should be disbursed to specific types/sectors of customers at discounted rates. The benefit on these loans amounting to SR 2.79 million (unaudited) [31 December 2019: SR 9.22 million (audited)] million being the impact of "lower than market value" loan obtained by the Company was identified and accounted for as "government grant" initially and was recorded as deferred income and classified within "accounts payable and accruals". Such benefit is recognised in interim condensed statement of comprehensive income on meeting the conditions attached to the grant.

11 RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties.

The following are the details of major related party transactions during the period:

Compensation to key management personnel of the Company

	Amount of transactions For the six months period ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Remuneration	**903,708**	907,242

(Saudi Riyals)

11 RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

Transactions with the related party related to the contracts

Related parties	Relationship	Nature	**30 June 2020 (Unaudited)**	30 June 2019 (Unaudited)
Gheras Al-Khairat Company Limited	Controlled by key management personnel	Special commission income from Murabaha	**50,277**	-

Below is the related party balance included in Ijara and Murabaha receivables (note 8(a)):

Due from related party:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Gheras Al-Khairat Company Limited	**5,979,779**	-

12 RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk and special commission rate risks), credit risk, legal 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 senior management. The most important risks and their management are summarised below.

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.

Special commission rate risk

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company is not exposed to a significant special commission rate risk at 30 June 2020.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has established a credit policy for corporate borrowers. Furthermore, all the loans are allowed for the maximum term of 60 months. As per such policy, Ijara and Murabaha receivable are not granted unless the borrower meets certain basic requirements, which are set out below:

- Corporate Know Your Customer ("KYC") validation of real operation;
- Income earned through cash flows;
- Collateral provided as equipment, vehicles, machinery, property, unless exempted; and
- Valuation of above mentioned collateral within basic Finance to Value ("FTV") ratios.

The Company monitors its receivables on a weekly basis. Furthermore, most of the receivables are backed by adequate collaterals.

In case of receivables past due for nine months, the Company takes legal actions against the borrower with an aim to either collect the receivable by selling the collaterals against which the financing is provided or force the customers to regularise their overdue positions.

(Saudi Riyals)

12 RISK MANAGEMENT (continued)

The table below reflects the Company's maximum exposure to credit risk for the components on the interim condensed statement of financial position:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Bank balances	**85,951,106**	9,683,664
Restricted cash deposits	**-**	1,237,503
Ijara and Murabaha receivables (gross)	**298,437,321**	284,221,490
Other assets	**17,211,159**	5,672,163
	401,599,586	300,814,820

Legal risk
Title deed of the real estate properties are registered in the name of a board member. The enforceability of any related rights and obligations are subject to interpretation and enforceability in the relevant courts of law.

Liquidity risk
Liquidity risk is the risk that the Company will be unable to meet its net financing requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of financing to dry up immediately. Management monitors the maturity profile of the Company's assets and liabilities to ensure that adequate liquidity is maintained.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 30 June 2020 and 31 December 2019 based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the interim condensed statement of financial position date to the contractual maturity date.

30 June 2020 (Unaudited)	**Less than 3 months**	**3-12 months**	**1-5 years**	**Total**
Accounts payable	**-**	**1,001,148**	**11,546,293**	**12,547,441**
Payable to SAMA	**-**	**20,300,777**	**60,902,330**	**81,203,107**
Refundable to SAMA	**19,546,893**	**-**	**-**	**19,546,893**
Lease liability	**1,132,131**	**-**	**1,132,131**	**2,264,262**
Borrowings	**-**	**12,429,519**	**100,860,427**	**113,289,946**
Total	**20,679,024**	**33,731,444**	**174,441,181**	**228,851,649**

31 December 2019 (Audited)	**Less than 3 months**	**3-12 months**	**1-5 years**	**Total**
Accounts payable	1,296,734	4,952,256	11,235,183	17,484,173
Lease liability	-	1,132,131	1,132,131	2,264,262
Borrowings	8,920,048	30,530,547	69,538,306	108,988,901
Total	10,216,782	36,614,934	81,905,620	128,737,336

For the purpose of above disclosures, accrued special commission has been included within borrowings.

13 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

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

Financial instruments comprise financial asset and financial liabilities. Financial assets of the Company include cash and bank balances, restricted cash deposits, Ijara and Murabaha receivables and other receivables. Financial liabilities of the Company include borrowings, payable to SAMA, refundable to SAMA, lease liability and accounts payable.

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.
The Company does not have any financial asset or financial liability carried at fair value in these financial statements.

14 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. Kingdom of 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 programmes.

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. 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 is too early for any potential credit impairment to be reflected through application of the staging criteria and focused on the macroeconomic model underpinning the Probability of Default (“PD”) and Loss Given Default (“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.

14 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 SME sector through empowering and facilitating the financing community. 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 at 30 June 2020, the Company is only participating in the deferred payment program as mentioned above.

As part of the deferred payments program, the Company is required to defer payments for six months on the eligible microfinance facilities. 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 relief by extending the tenure of the applicable financings granted with no additional costs to be borne by the customers. The accounting impact of these changes in the terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9. This has resulted in the Company recognizing a day 1 modification loss of SR 10.6 million (unaudited) as at 31 March 2020 and this has been presented as part of special commission income. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Pursuant to SAMA deferred payments program, the Company under an agreement with SAMA, received loan amounting to SR 100.75 million (unaudited), as profit-free deposit. The amount is repayable to SAMA over the period of 3.5 years in equal monthly instalments, with initial grace period of 6 months. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 5.9 million (unaudited), which was recognized in the interim condensed statement of comprehensive income during the quarter ended 31 March 2020 immediately. The management has exercised certain judgements in the recognition and measurement of this grant income.

In the quarter ended 30 June 2020, management identified certain differences in the calculation based on which an amount of SR 100.75 million was derived. As a result, it was determined that an amount of SR 19.55 million should be refunded to SAMA and this was re-confirmed by SAMA and communicated on 16 July 2020. The balance was recorded as refundable to SAMA at 30 June 2020 and subsequently paid. Accordingly, out of the initially recorded government grant income of SR 5.9 million in the quarter ended 31 March 2020, SR 1.2 million was reversed in the quarter ended 30 June 2020 and therefore the resulting grant income recorded during the period amounted to SR 4.7 million.

During April 2020, SAMA has issued a guidance around additional COVID-19 support measures for Micro, Small and Medium Enterprises ("MSMEs") that the finance companies will need to undertake in relation to MSMEs deferred payments program. The Company has considered the guidance issued and implemented in the period ended 30 June 2020.

15 EVENTS AFTER REPORTING DATE

No material events have occurred subsequent to the reporting date and before the issuance of these interim condensed financial statements which require adjustment to, or disclosure, in these interim condensed financial statements.

16 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the Board of Directors on 6 Dhual Hijja 1441 (H), corresponding to 27 July 2020 (G).