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 PERIODS
ENDED 30 JUNE 2021

INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2021

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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 2021 and the related interim condensed statement of profit or loss and other comprehensive income for the three and six months 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 (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") 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 with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

For Dr. Mohamed Al-Amri & Co.

Gihad Al-Amri
Certified Public Accountant
Registration No. 362

د. محمد العمري وشركاه - محاسبون قانونيون
س.ت : ١٠١٠٤٣٣٩٨٢
Riyadh
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

Riyadh, on 24 Dhul-Hijjah 1442 (H)
Corresponding to: 3 August 2021 (G)

INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2021
(Saudi Riyals)

	Note	For the three months period ended 30 June		For the six months period ended 30 June	
		2021	2020	**2021**	2020
OPERATING INCOME					
Special commission income from Ijara and Murabaha contracts		**14,955,706**	11,313,292	**29,204,976**	21,649,228
Finance charges		**(6,870,500)**	(2,900,882)	**(13,059,851)**	(5,136,557)
		8,085,206	8,412,410	**16,145,125**	16,512,671
Modification gain on borrowings, grant income and loss on restructuring of Murabaha receivables, net		**1,417,958**	1,304,266	**1,417,958**	(3,426,600)
Application fees and other income		**1,709,738**	391,349	**4,566,817**	1,167,176
TOTAL OPERATING INCOME, NET		**11,212,902**	10,108,025	**22,129,900**	14,253,247
OPERATING EXPENSES					
General and administrative expenses	4	**(5,733,198)**	(3,656,988)	**(11,755,636)**	(7,158,312)
Selling and marketing expenses	5	**(2,866,613)**	(972,483)	**(5,151,786)**	(1,809,616)
Depreciation and amortisation		**(918,947)**	(491,976)	**(1,733,707)**	(973,915)
Impairment loss on Ijara and Murabaha receivables	8 (b)	**-**	(886,775)	**(450,760)**	(3,092,315)
		1,694,144	4,099,803	**3,038,011**	1,219,089
Profit from investments held at fair value through other comprehensive income ("FVOCI")		**411,421**	-	**1,107,834**	-
Gain on sale of investments held at FVOCI		**2,386,228**	-	**2,386,228**	-
PROFIT BEFORE ZAKAT		**4,491,793**	4,099,803	**6,532,073**	1,219,089
Zakat	6	**(219,998)**	(320,145)	**(403,009)**	(368,915)
PROFIT FOR THE PERIOD		**4,271,795**	3,779,658	**6,129,064**	850,174
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified to profit or loss in subsequent periods:					
Fair value gain on investments held at FVOCI		**1,369,639**	-	**1,162,726**	-
Gain on sale of investments held at FVOCI reclassified to profit or loss		**(2,386,228)**	-	**(2,386,228)**	-
TOTAL OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**(1,016,589)**	-	**(1,223,502)**	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**3,255,206**	3,779,658	**4,905,562**	850,174

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021
(Saudi Riyals)

	Note	**30 June 2021 (Unaudited)**	31 December 2020 (Audited)
ASSETS			
Cash and cash equivalents	7	**120,349,034**	124,118,061
Murabaha receivables	8 (a)	**442,277,331**	328,007,814
Prepayments and other assets		**11,534,032**	49,838,528
Investments held at fair value through other comprehensive income (“FVOCI”)	9	**4,768,963**	34,572,424
Right-of-use assets		**8,605,435**	1,763,861
Property and equipment		**1,201,335**	600,611
Intangible assets		**1,428,673**	1,016,824
TOTAL ASSETS		**590,164,803**	539,918,123
LIABILITIES AND SHAREHOLDERS’ EQUITY			
LIABILITIES			
Accounts payable and accruals		**26,215,942**	25,687,055
Payable to SAMA	15	**232,632,942**	208,461,963
Zakat payable	6	**542,457**	853,361
Lease liabilities		**8,152,708**	909,297
Borrowings	11	**159,691,269**	146,226,993
Employees' terminal benefits		**2,316,747**	2,072,278
TOTAL LIABILITIES		**429,552,065**	384,210,947
SHAREHOLDERS’ EQUITY			
Share capital	10	**150,000,000**	150,000,000
Statutory reserve		**2,243,819**	2,243,819
Fair value reserve - FVOCI		**229,801**	1,453,303
Reserve on re-measurement of employees’ terminal benefits		**(420,689)**	(420,689)
Retained earnings		**8,559,807**	2,430,743
TOTAL SHAREHOLDERS’ EQUITY		**160,612,738**	155,707,176
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY		**590,164,803**	539,918,123

The attached notes 1 to 19 form part of these interim condensed financial statements.

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021

(Saudi Riyals)

	Share capital SR	Statutory reserve SR	Fair value reserve - FVOCI SR	Reserve on re-measurement of employees' terminal benefits SR	Retained earnings SR	Total SR
For the six months 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
For the six months period ended 30 June 2021 (unaudited)						
Balance as at 1 January 2021	**150,000,000**	**2,243,819**	**1,453,303**	**(420,689)**	**2,430,743**	**155,707,176**
Profit for the period	**-**	**-**	**-**	**-**	**6,129,064**	**6,129,064**
Other comprehensive loss for the period	**-**	**-**	**(1,223,502)**	**-**	**-**	**(1,223,502)**
Total comprehensive income for the period	**-**	**-**	**(1,223,502)**	**-**	**6,129,064**	**4,905,562**
Balance as at 30 June 2021	**150,000,000**	**2,243,819**	**229,801**	**(420,689)**	**8,559,807**	**160,612,738**

The attached notes 1 to 19 form part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2021

(Saudi Riyals)

	Note	For the six months period ended 30 June	
		2021	2020
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before zakat		**6,532,073**	1,219,089
Adjustments for:			
Government grant income		**(5,683,625)**	(4,091,468)
Finance cost		**12,801,157**	-
Impairment loss on Ijara and Murabaha receivables	8 (b)	**450,760**	3,092,315
Profit from investments held at FVOCI		**(1,107,834)**	-
Gain on sale of investments held at FVOCI		**(2,386,228)**	-
Depreciation on property and equipment		**293,449**	138,732
Depreciation on right-of-use assets		**1,096,342**	503,960
Amortisation of intangible assets		**343,916**	331,223
Provision for employees' terminal benefits		**402,494**	218,222
Finance charge on leases		**242,692**	77,396
Operating cash flows before working capital adjustments		**12,985,196**	1,489,469
Working capital adjustments:			
Restricted cash deposits		**-**	1,237,503
Ijara and Murabaha receivables		**(114,720,277)**	(21,567,010)
Prepayments and other assets		**38,304,490**	(13,466,878)
Accounts payable and accruals		**528,887**	5,859,816
Cash used in operations		**(62,901,704)**	(26,447,100)
Employees' terminal benefits paid		**(158,025)**	(99,530)
Zakat paid	6	**(713,913)**	(54,985)
Net cash used in operating activities		**(63,773,642)**	(26,601,615)
CASH FLOW FROM INVESTING ACTIVITIES			
Commission income received on investments held at FVOCI		**997,129**	-
Proceeds from sale of investments held at FVOCI	9	**31,076,891**	-
Purchase of property and equipment		**(894,174)**	(306,560)
Purchase of intangible assets		**(755,765)**	(820,569)
Net cash from / (used in) investing activities		**30,424,081**	(1,127,129)
CASH FLOW FROM FINANCING ACTIVITIES			
Cash received from SAMA	15	**71,004,929**	100,750,000
Repayments to SAMA	15	**(50,099,405)**	-
Proceeds from borrowings		**30,000,000**	20,000,000
Repayment of borrowings		**(19,245,488)**	(16,753,814)
Deferred grant income on borrowings		**(1,142,312)**	-
Repayment of lease liabilities		**(937,190)**	-
Net cash from financing activities		**29,580,534**	103,996,186
Net decrease in cash and cash equivalents		**(3,769,027)**	76,267,442
Cash and cash equivalents at the beginning of the period		**124,118,061**	9,683,664
Cash and cash equivalents at the end of the period	7	**120,349,034**	85,951,106

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 2020.

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 2020.

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 accounting policies adopted in the preparation of the 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 2020. In addition, results for the six months period ended 30 June 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

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 2020. 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)

b) Significant accounting judgments, estimates and assumptions (continued)

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 2020.

c) Adoption of new standards and amendments to existing accounting standards

New accounting standards and amendments to existing accounting standards effective from 1 January 2021 and onwards do not have any significant effect on the Company's interim condensed financial statements.

New standards, interpretations and amendments effective in current year

The accounting policies adopted in the preparation of the 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 2020, except for the adoption of new standards effective as of 1 January 2021. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed financial statements of the Company.

New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company has decided not to adopt early.

The most significant of these are as follows:

Standards	Title	Effective date
IAS 37	Provisions, Contingent Liabilities and Contingent Assets - Amendments regarding the costs to include when assessing whether a contract is onerous	1 January 2022
IAS 16	Property, Plant and Equipment - Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use	1 January 2022
IFRS 1	Annual Improvements to IFRS Standards 2018-2020	1 January 2022
IAS 1	Presentation of Financial Statements - Amendments regarding the classification of liabilities and disclosure of accounting policies	1 January 2023
IAS 8	Accounting policies, Changes in Accounting Estimates and Errors - Amendments regarding the definition of accounting estimates	1 January 2023
IFRS 9	Amendments regarding the interaction of IFRS 4 and IFRS 9	1 January 2023

(Saudi Riyals)

4 GENERAL AND ADMINSTRATIVE EXPENSES

	For the three months period ended 30 June		For the six months period ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)	**2021 (Unaudited)**	2020 (Unaudited)
Salaries and employees' related cost	**3,791,919**	2,222,555	**6,825,397**	4,546,238
Professional and legal fees	**653,366**	450,000	**1,448,366**	912,000
Saudi Credit Bureau (SIMAH) expense	**500,493**	90,000	**1,122,743**	160,000
Utilities and IT infrastructure expense	**488,000**	240,000	**878,189**	310,000
Health insurance expense	**196,585**	98,016	**392,444**	225,663
Rent	**34,845**	7,080	**105,232**	49,168
Sharia board fee	**12,500**	36,000	**130,027**	72,000
Others	**55,490**	513,337	**853,238**	883,243
	5,733,198	3,656,988	**11,755,636**	7,158,312

5 SELLING AND MARKETING EXPENSES

	For the three months period ended 30 June		For the six months period ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)	**2021 (Unaudited)**	2020 (Unaudited)
Salaries and employees' related cost	**1,747,961**	840,398	**3,704,111**	1,514,080
Commission	**1,118,652**	132,085	**1,447,675**	295,536
	2,866,613	972,483	**5,151,786**	1,809,616

6 ZAKAT

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)	30 June 2020 (Unaudited)
At the beginning of the period / year	**853,361**	1,448,889	1,448,889
Charge for the period / year	**403,009**	732,037	368,915
Paid during the period / year	**(713,913)**	(1,327,565)	(54,985)
At the end of the period / year	**542,457**	853,361	1,762,819

Status of assessments

As at 30 June 2021, the Company had filed its zakat returns with the General Authority of Zakat and Tax ("GAZT") for all years up to 2020. In 2021, GAZT became part of newly formed Zakat, Tax and Customs Authority ("ZATCA").

(Saudi Riyals)

7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Bank balance – current accounts	**120,348,500**	110,620,916
Brokerage account - cash	**534**	13,497,145
	120,349,034	124,118,061

Bank current accounts are with counterparties who have investment grade credit ratings, as rated by international rating agencies.

8 MURABAHA RECEIVABLES

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

8 (a) Total receivables

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Gross receivables	**543,408,402**	387,687,346
Less: unearned finance income	**(93,894,871)**	(52,894,092)
	449,513,531	334,793,254
Less: allowance for expected credit losses	**(7,236,200)**	(6,785,440)
Net receivables	**442,277,331**	328,007,814

All the financing facilities provided by the Company are Shariah compliant, accordingly they are non-conventional in nature. Murabaha receivables include the balance due from a related party of SR 8,898,316 (note 12) (31 December 2020: SR 7,309,205).

The Company had also Ijarah contract receivables during the period ended 30 June 2020 and all these contracts matured during the year ended 31 December 2020.

8 (b) Movement in allowance for expected credit losses

	30 June 2021 (Unaudited)	31 December 2020 (Audited)	30 June 2020 (Unaudited)
Balance at the beginning of the period/year	**6,785,440**	8,805,550	8,805,550
Charge for the period/year	**450,760**	30,251,890	3,092,315
Written off during the period/year	**-**	(32,272,000)	(7,351,179)
Balance at the end of the period/year	**7,236,200**	6,785,440	4,546,686

(Saudi Riyals)

8 MURABAHA RECEIVABLES (continued)

8 (c) Expected maturity

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Within 1 year	**234,084,559**	178,272,909
1 - 2 years	**105,432,950**	48,887,650
2 - 3 years	**66,212,510**	102,250,133
3 - 4 years	**17,717,839**	5,382,562
4 – 5 years	**26,065,673**	-
Total	**449,513,531**	334,793,254

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

As at reporting date, the aging of past due receivables are as follows:

	< 30 days	*30 - 60 days*	*61 – 90 days*	*91 – 120 days*	*121 – 180 days*	*181 – 360 days*	*Above 360 days*	*Total*
30 June 2021 (Unaudited)								
Receivables	**14,297,694**	**9,317,093**	**20,284,458**	**3,046,770**	**5,299,234**	**27,904,998**	**4,143,129**	**84,293,376**
31 December 2020 (Audited)								
Receivables	108,547,269	9,864,851	6,765,885	3,274,309	602,074	9,861,147	10,126,887	149,042,422

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

Sectors	**30 June 2021 (Unaudited)**	31 December 2020 (Audited)
Services	**32.24%**	38.04%
Contracting	**25.94%**	29.90%
Retail business	**21.71%**	14.75%
Industrial	**18.07%**	14.74%
Trading	**2.04%**	2.57%

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 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 2021 amounted to SR 431.7 million (31 December 2020: SR 371.2 million).

9 INVESTMENTS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

During the current period, the Company has partially sold its investments in Sukuk for SR 31,076,891. As at 30 June 2021, the Company has investments in Sukuk amounting to SR 3,876,114 (31 December 2020: SR 33,679,574).

10 SHARE CAPITAL

Share capital amounted to SR 150,000,000 as at 30 June 2021 and 31 December 2020 consisting of 15,000,000 shares of SR 10 each, which are fully paid.

(Saudi Riyals)

11 BORROWINGS

The details of the borrowings obtained by the Company from a government entity is given below:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Current portion	**60,221,037**	40,000,821
Non-current portion	**99,470,232**	106,226,172
	159,691,269	146,226,993

Before 2020, the Company obtained loans from a government entity amounting to SR 125 million. These are 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 one year effective from March 2020. The accounting impact of these changes in terms of the borrowings has been assessed and are treated as per the requirements of IFRS 9. This resulted in the Company incurring a modification gain of SR 6 million during the year ended 31 December 2020 with respect to the loans received before 2020. As required by the government entity as a condition of defer payments of these borrowings, the Company is required to give one year deferrals of repayments to the Murabaha customers eligible for this program. This resulted in the Company incurring a corresponding modification loss of SR 10.3 million during the year ended 31 December 2020.

Between June and September 2020, the Company obtained additional loans from the government entity of SR 70 million repayable in monthly instalments commencing from January 2021, with the final instalment due in January 2024.

On 11 January 2021 and 22 June 2021, the Company further obtained two loans each amounting to SR 15 million repayable in monthly instalments commencing from July 2021 and October 2021 respectively, with the final instalments due in June 2024 and September 2024 respectively.

The above borrowings received by the Company from a government entity carry fixed special commission rates that are significantly lower than then prevailing market rates. They also carry a number of conditions, one of which is that equivalent loans should be disbursed to specific types/sectors of customers at reduced rates. The initially recorded benefit on these loans amounting to SR 2.8 million during the six months period ended 30 June 2021 (year ended 31 December 2020: SR 7.5 million) being the impact of “lower than market value” loans obtained by the Company was accounted for as “government grant”. Such benefits are recognised, on meeting the conditions attached to the grant on a systematic basis against the expense for which such grant is intended to compensate, in profit or loss in “special commission income from Ijara and Murabaha receivables” line item. The government grant not yet recognised in profit or loss as at 30 June 2021 amounted to SR 1.1 million (31 December 2020: SR nil) and is included within “accounts payable and accruals”.

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

(Saudi Riyals)

12 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	
	2021 (Unaudited)	2020 (Unaudited)
Remuneration	**675,161**	903,708
Termination and other long term benefits	**123,193**	25,733
Total compensation of key management personnel	**798,354**	929,441

Transactions with the related party related to the contracts

Related parties	Relationship	Nature	30 June 2021 (Unaudited)	30 June 2020 (Unaudited)
Gheras Al-Khairat Company Limited	Controlled by key management personnel	Special commission income from Murabaha	**146,742**	50,277

***Due from related party*:**

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Gheras Al-Khairat Company Limited	**8,898,316**	7,309,205

Below is the related party balance included in prepayments and other assets:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Alraedah Investment Company	**458,191**	331,341

13 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:

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company neither has monetary assets/liabilities, nor has undertaken any transactions in currencies other than Saudi Riyal and US Dollars during the year. As Saudi Riyal is currently pegged to the US Dollar and there were no significant transactions or exposure in currencies other than Saudi Riyal and US Dollars, management believes that the Company has no significant exposure to currency risk.

(Saudi Riyals)

13 RISK MANAGEMENT (continued)

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest or commission rates. The Company's exposure to commission rate risk is minimal as financial assets including Murabaha receivables and investments in Sukuk (classified as FVOCI) as well as financial liabilities including payables to SAMA and borrowings outstanding at 30 June 2021 are fixed rate ones.

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, 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 six 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.

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 2021 (Unaudited)	31 December 2020 (Audited)
Cash and cash equivalents	**120,349,034**	124,118,061
Murabaha receivables	**442,277,331**	328,007,814
Investments held at fair value through other comprehensive income	**4,768,963**	34,572,424
Other assets	**10,898,056**	49,075,305
	578,293,384	535,773,604

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 undiscounted value of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 30 June 2021 and 31 December 2020 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 2021 (Unaudited)	**Less than 3 months**	**3-12 months**	**1-5 years**	**Total**
Accounts payable	**2,681,843**	**4,870,558**	**4,572,994**	**12,125,395**
Payable to SAMA	**43,054,236**	**133,618,122**	**67,226,551**	**243,898,909**
Lease liabilities	**937,190**	**1,132,131**	**7,497,518**	**9,566,839**
Borrowings	**16,310,766**	**52,776,043**	**105,362,960**	**174,449,769**
Total	**62,984,035**	**192,396,854**	**184,660,023**	**440,040,912**

(Saudi Riyals)

13 RISK MANAGEMENT (continued)

Analysis of undiscounted value of financial liabilities by remaining contractual maturities (continued)

31 December 2020 (Audited)	**Less than 3 months**	**3-12 months**	**1-5 years**	**Total**
Accounts payable	2,106,585	4,317,488	6,940,476	13,364,549
Payable to SAMA	16,512,495	96,693,522	109,787,367	222,993,384
Lease liabilities	-	1,127,454	-	1,127,454
Borrowings	4,315,972	44,788,549	113,971,987	163,076,508
Total	22,935,052	146,927,013	230,699,830	400,561,895

14 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 includes bank balances, Murabaha receivables, investments held at FVOCI and other receivables. Financial liabilities of the Company include borrowings, payables to SAMA and accounts payable. Except for investments held at FVOCI that are measured at fair value, carrying amounts of all other financial instruments are considered to approximate their fair values.

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.

Out of investments carried at FVOCI, Sukuk is classified within level 1 of the fair value hierarchy and equity instruments within level 3 of the fair value hierarchy.

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.

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 fair value hierarchy levels during the current or prior period.

Management believes that the fair value of financial assets and liabilities at the reporting date approximate their carrying values.

15 SAMA PROGRAMS

SAMA programs and initiatives launched
In response to COVID-19 (refer also note 16), 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.

During the period ended 30 June 2021, the Company has only participated in the deferred payment programs as mentioned above.

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 2021.

Deferred payments program – March 2020
As part of the deferred payments program, the Company is required to defer payments for six months (from March 2020 to September 2020) 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 initially a day 1 modification loss of SR 5.9 million with respect to participating Murabaha facilities granted to its customers, which was recognized in profit or loss immediately. 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 a loan amounting to SR 100.8 million, as profit-free deposit. Subsequently, management identified certain differences in the calculation based on which an amount of SR 100.8 million was derived. As a result, it was determined that an amount of SR 19.6 million should be refunded to SAMA and this was re-confirmed by SAMA and paid in July 2020. The revisited net amount payable to SAMA against this loan after repayment is SR 81.2 million. The amount is repayable to SAMA over the period of 3.5 years in equal monthly instalments, with an initial grace period of 6 months. During 2020, the Company has repaid SR 4.5 million and during the period SR 13.5 million against this facility. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted initially in a total income of SR 10.4 million, which was recognized in profit or loss immediately. The management has exercised certain judgements in the recognition and measurement of this grant income.

Deferred payments program – September 2020
In September 2020, SAMA announced to extend the SAMA deferred payments program for three months from September 2020 until December 2020. Pursuant to this program, the Company received a loan amounting to SR 73.1 million, as profit-free deposit. The amount is repayable to SAMA over the period of 1.25 years in equal monthly instalments, with an initial grace period of 4 months. During the period, the Company has repaid SR 24.4 million against this facility. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 4.2 million, which was recognized in the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognized a day 1 modification loss of SR 3 million with respect to participating Murabaha facilities granted to its customers which was recognized in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

15 SAMA PROGRAMS (continued)

Deferred payments program – December 2020

In December 2020, SAMA announced to further extend the SAMA deferred payments program for three months from December 2020 until March 2021. Pursuant to this program, the Company received a loan amounting to SR 73.2 million, as profit-free deposit. The amount is repayable to SAMA over the period of 1.5 years in equal monthly instalments, with an initial grace period of 4 months. During the period, the Company has repaid SR 12.2 million against this facility. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 4.7 million, which was recognized in the profit or loss section of the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognized a day 1 modification loss of SR 3 million with respect to participating Murabaha facilities granted to its customers which was recognized in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payments program – April 2021

In March 2021, SAMA announced to further extend the SAMA deferred payments program for three months from April 2021 until June 2021. Pursuant to this program, the Company received a loan amounting to SR 71 million, as profit-free deposit. The amount is repayable to SAMA over the period of 1.25 years in equal monthly instalments, with an initial grace period of 4 months. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 4 million, which was recognized in the profit or loss section of the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognized a day 1 modification loss of SR 2.6 million with respect to participating Murabaha facilities granted to its customers which was recognized in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payments program – June 2021

In June 2021, SAMA announced to further extend the SAMA deferred payments program for three months from July 2021 until September 2021, with certain conditions. However, at the date of issuance of these interim condensed financial statements the Company has not received any amount, as it is currently determining how much funding it need from SAMA, as per the conditions attached to deferred payment program.

16 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES

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 this 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.

16 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (continued)

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.

17 EVENTS AFTER REPORTING DATE

No material events have occurred subsequent to the reporting date and before the issuance of these interim financial statements which require adjustments or additional disclosures to these interim condensed financial statements.

18 PRIOR PERIOD RECLASSIFICATIONS

Certain comparative figures in the interim condensed statement of profit or loss and other comprehensive income has been reclassified to conform the current period presentation.

19 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the Board of Directors on 24 Dhul-Hijjah 1442 (H), corresponding to 3 August 2021 (G).