

Emkan Finance Company
(A Saudi One Person Closed Joint Stock Company)

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

31 MARCH 2020



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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS TO THE SHAREHOLDER OF EMKAN FINANCE COMPANY (A SAUDI ONE PERSON CLOSED JOINT STOCK COMPANY)

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Emkan Finance Company - A Saudi One Person Closed Joint Stock Company (the "Company") as at 31 March 2020 and the related interim condensed statements of comprehensive income, changes in shareholder's equity and cash flows for the three-month 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" that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 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.

Other matter

We were not engaged to audit or review the interim condensed financial statements of the Company as at and for the three-month period ended 31 March 2019. Accordingly, the comparative numbers as at and for the three-month period ended 31 March 2019 are unaudited and unreviewed.

for Ernst & Young

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



Riyadh: 5 Safar 1442H
(22 September 2020)

Emkan Finance Company
(A Saudi One Person Closed Joint Stock Company)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three-month period ended 31 March 2020

		31 March 2020 SR (Unaudited)	31 March 2019 SR (Unaudited & unreviewed)
OPERATING EXPENSES			
General and administrative expenses	4	<u>(1,029,111)</u>	<u>-</u>
LOSS FOR THE PERIOD		<u>(1,029,111)</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		<u><u>(1,029,111)</u></u>	<u><u>-</u></u>
Basic and diluted loss per share	8	(0.064)	-

The attached notes 1 to 13 form part of these interim condensed financial statements.

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الرئيس التنفيذي

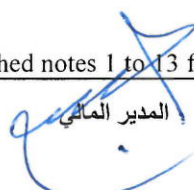
Emkan Finance Company
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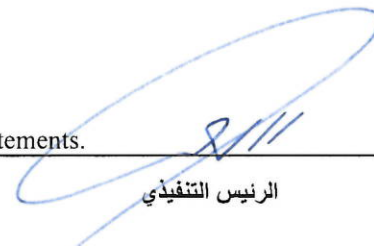
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

		31 March 2020 SR (Unaudited)	31 December 2019 SR (Audited)
ASSETS			
Bank balances		158,977,918	159,910,649
Prepayments and other assets		74,238	-
Property and equipment		10,377	-
TOTAL ASSETS		159,062,533	159,910,649
LIABILITIES AND SHAREHOLDER'S EQUITY			
LIABILITIES			
Accrued expenses and other current liabilities		263,788	82,793
SHAREHOLDER'S EQUITY			
Share capital	8	160,000,000	160,000,000
Accumulated losses		(1,201,255)	(172,144)
TOTAL SHAREHOLDER'S EQUITY		158,798,745	159,827,856
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		159,062,533	159,910,649

The attached notes 1 to 13 form part of these interim condensed financial statements.


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Emkan Finance Company
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INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the three-month period ended 31 March 2020

	Share capital SR	Accumulated losses SR	Total SR
<i>For the three-month period ended 31 March 2019 (unaudited & unreviewed)</i>			
Issuance of share capital	160,000,000	-	160,000,000
Balance as at 31 March 2019	160,000,000	-	160,000,000
<i>For the three-month period ended 31 March 2020 (unaudited)</i>			
Balance as at 1 January 2020	160,000,000	(172,144)	159,827,856
Total comprehensive loss for the period	-	(1,029,111)	(1,029,111)
Balance as at 31 March 2020	160,000,000	(1,029,111)	158,798,745

The attached notes 1 to 13 form part of these interim condensed financial statements.

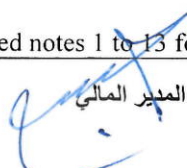
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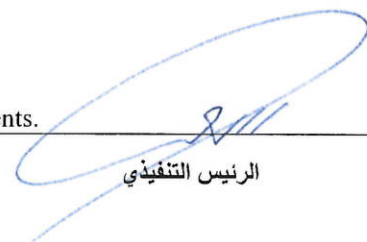
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Emkan Finance Company
(A Saudi One Person Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the three-month period ended 31 March 2020

	31 March 2020 SR (Unaudited)	31 March 2019 SR (Unaudited & unreviewed)
OPERATING ACTIVITIES		
Net loss for the period	(1,029,111)	-
Changes in operating assets and liabilities:		
Prepayments and other assets	(74,238)	-
Accrued expenses	180,995	-
Net cash used in operating activities	<u>(922,354)</u>	<u>-</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(10,377)	-
Cash used in investing activities	<u>(10,377)</u>	<u>-</u>
FINANCING ACTIVITIES		
Issuance of share capital	-	160,000,000
Cash from financing activities	-	160,000,000
NET (DECREASE) INCREASE IN BANK BALANCES	(932,731)	160,000,000
Bank balances at the beginning of the period	<u>159,910,649</u>	<u>-</u>
BANK BALANCES AT THE END OF THE PERIOD	<u>158,977,918</u>	<u>160,000,000</u>

The attached notes 1 to 13 form part of these interim condensed financial statements.


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الرئيس التنفيذي

Emkan Finance Company
(A Saudi One Person Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2020

1 ACTIVITIES

Emkan Finance Company (the "Company") is a Saudi One Person Closed Joint Stock Company established under the Regulations for Companies in the Kingdom of Saudi Arabia.

The Company operates under Commercial Registration No.1010501239 issued in Riyadh on 24 Rabi Thani 1440 (corresponding to 1 January 2019) and its Head Office is located at the following address:

Emkan Finance Company
8467 King Fahd Road - Al Muruj Dist.
Unit No 1
Riyadh 12263 - 2743
Kingdom of Saudi Arabia

The Company is licensed by Saudi Arabian Monetary Authority ("SAMA") to carry out consumer finance, financing productive assets, auto leasing and small and medium entities financing in accordance with the approval from SAMA numbered 9/ASH issued on 19 Sha'aban 1441H (corresponding to 12 April 2020). However, the Company has not yet commenced its operations as of 31 March 2020.

2 BASIS OF PREPARATION

The interim condensed financial statements of the Company as at and for the three-month period ended 31 March 2020 are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") that is 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 ("SR"), which is the functional and presentation currency of the Company.

Assets and liabilities in the interim condensed statement of financial position are presented in the order of 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 three-month period ended 31 March 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

The accounting policies used 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 2019.

Emkan Finance Company
(A Saudi One Person Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 31 March 2020

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Significant accounting judgments, estimates and assumptions

The preparation of the Company's interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The outbreak of novel coronavirus ("COVID-19") since early 2020 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 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.

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

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. The Company has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

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.

Emkan Finance Company
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 31 March 2020

4 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>For the three-month period ended 31 March</i>	
	<i>2020 SR (Unaudited)</i>	<i>2019 SR (Unaudited & unreviewed)</i>
Salaries and employees' related cost	971,829	-
Governmental expense	51,275	-
Others	6,007	-
	<u>1,029,111</u>	<u>-</u>

5 SHARE CAPITAL

Share capital is divided into 16,000,000 shares (unaudited) (31 December 2019 ((audited): 16,000,000 shares) of SR 10 each.

In its meeting held on 28 June 2020, the Annual General Assembly has resolved to increase the Company capital from SR 160 million to SR 500 million. The proposed capital increase has been injected by the Shareholder during July 2020 and the legal formalities to effect the capital increase will be completed in 2020.

6 RELATED PARTIES TRANSACTIONS AND BALANCES

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

The significant transactions with related parties during the year and the related balances are as follows:

<i>Related party</i>	<i>Nature of relation</i>	<i>Nature of transaction</i>	<i>Amount of transactions for the three-month period ended 31 March</i>	
			<i>2020 (Unaudited) SR</i>	<i>2019 (Unaudited & unreviewed) SR</i>
Al Rajhi Services Company	Affiliate	Outsource staff cost	<u>198,158</u>	<u>33,288</u>

7 ZAKAT

The Company is a wholly owned subsidiary of Al Rajhi Banking and Investment Corporation ("the Shareholder"). According to the Ministerial Resolution No. 1005, dated 28 Rabi Thani 1428H (15 May 2007), the Shareholder submits zakat return based on its consolidated financial statements and consolidated zakat base and settles zakat liability accordingly. The Shareholder has not charged the Company any zakat expenses for the three-month period ended 30 June 2020 (SR nil: for the year ended 31 December 2019).

Emkan Finance Company
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 31 March 2020

8 BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share for the period are calculated by dividing loss for the period by the weighted average number of issued and outstanding shares of 16 million during the period.

9 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 is 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.

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, it is arising principally from bank balances SR 158,978 million (unaudited) (31 December 2019: SR 159,911 million (audited)).

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.

10 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 other receivables. Financial liabilities of the Company include accrued expenses and other liabilities.

Management believes that the fair value of the financial assets and liabilities included in interim condensed statement of financial position 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.

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.

All the financial assets and liabilities of the Company are classified 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 level during the current or prior year.

Emkan Finance Company
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 31 March 2020

11 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. 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 Company will continue to individually assess significant impact on its operation as more reliable data becomes available.

12 EVENTS AFTER REPORTING DATE

Other than what have been disclosed in note 5 above, there have been no events subsequent to the reporting date that would require adjustments to and/or disclosure in the interim condensed financial statements as at and for the three-month period ended 31 March 2020.

13 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the Board of Directors on 03 Safar 1442H (corresponding to 20 September 2020).