

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

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

**30 JUNE 2020**

**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 30 June 2020 and the related interim condensed statement of comprehensive income for the three-month and six-month periods ended 30 June 2020, and the interim condensed statements of changes in shareholder's equity and cash flows for the six-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 for the three-month and six-month periods ended and 30 June 2019. Accordingly, the comparative figures for the three-month and six-month periods ended 30 June 2019 are unaudited and unreviewed.

for Ernst & Young



Yousef A. AIMubarak  
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 and six-month period ended 30 June 2020

		For the three-month period ended		For the six-month period ended	
		30 June 2019	30 June 2019	30 June 2019	30 June 2019
		SR	SR	SR	SR
		30 June 2020 (Unaudited & Note (Unaudited))	(Unaudited & unreviewed)	30 June 2020 (Unaudited & Note (Unaudited))	(Unaudited & unreviewed)
<b>OPERATING INCOME</b>					
Murabaha financing income		6,620,423	-	6,620,423	-
Murabaha financing expense		(641,077)	-	(641,077)	-
<b>NET MURABAHA FINANCING INCOME</b>		<b>5,979,346</b>	<b>-</b>	<b>5,979,346</b>	<b>-</b>
General and administrative expenses	4	(4,879,253)	-	(5,908,364)	-
Impairment losses on murabaha financing receivables		(3,672,098)	-	(3,672,098)	-
<b>LOSS FOR THE PERIOD</b>		<b>(2,572,005)</b>	<b>-</b>	<b>(3,601,116)</b>	<b>-</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(2,572,005)</b>	<b>-</b>	<b>(3,601,116)</b>	<b>-</b>
Basic and diluted loss per share	11	(0.16)	-	(0.23)	-

The attached notes 1 to 15 form part of these interim condensed financial statements.

المدير المالي

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

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020 SR (Unaudited)	31 December 2019 SR (Audited)
<b>ASSETS</b>			
Bank balances		109,226,513	159,910,649
Murabaha financing receivables	7	363,602,057	-
Prepayments and other assets		172,176	-
Amount due from related parties	6	4,203,487	-
Property and equipment		132,235	-
<b>TOTAL ASSETS</b>		<b>477,336,468</b>	<b>159,910,649</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
<b>LIABILITIES</b>			
Accrued expenses and other current liabilities		1,808,720	82,793
Murabaha loan	8	316,829,001	-
Employees' terminal benefits		2,472,007	-
<b>TOTAL LIABILITIES</b>		<b>321,109,728</b>	<b>82,793</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	5	160,000,000	160,000,000
Accumulated losses		(3,773,260)	(172,144)
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>156,226,740</b>	<b>159,827,856</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>477,336,468</b>	<b>159,910,649</b>

The attached notes 1 to 15 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 six-month period ended 30 June 2020

	Share capital SR	Accumulated losses SR	Total SR
<i><u>For the six-month period ended 30 June 2019 (unaudited &amp; unreviewed)</u></i>			
Issuance of share capital	160,000,000	-	160,000,000
Balance as at 30 June 2019	160,000,000	-	160,000,000
<i><u>For the six-month period ended 30 June 2020 (unaudited)</u></i>			
Balance as at 1 January 2020	160,000,000	(172,144)	159,827,856
Total comprehensive loss for the period	-	(3,601,116)	(3,601,116)
<b>Balance as at 30 June 2020</b>	<b>160,000,000</b>	<b>(3,773,260)</b>	<b>156,226,740</b>

The attached notes 1 to 15 form part of these interim condensed financial statements.

المدير المالي

الرئيس التنفيذي

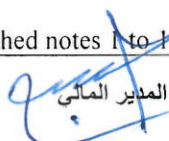
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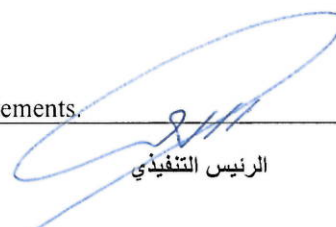
INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2020

	Note	30 June 2020 SR (Unaudited)	30 June 2019 SR (Unaudited and Unreviewed)
<b>OPERATING ACTIVITIES</b>			
Net loss for the period		(3,601,116)	-
<i>Adjustments for:</i>			
Depreciation		4,372	-
		<u>(3,596,744)</u>	-
Changes in operating assets and liabilities:			
Murabaha financing receivables		(363,602,057)	-
Prepayments and other assets		(172,176)	-
Accrued expenses and other current liabilities		4,197,934	-
Net cash used in operating activities		<u>(363,173,043)</u>	-
<b>INVESTING ACTIVITY</b>			
Purchase of property and equipment		(136,607)	-
Cash used in investing activity		<u>(136,607)</u>	-
<b>FINANCING ACTIVITIES</b>			
Murabaha loan	8	316,829,001	-
Amount due from related parties		(4,203,487)	-
Issuance of share capital		-	160,000,000
Cash from financing activities		<u>312,625,514</u>	160,000,000
<b>NET (DECREASE) INCREASE IN BANK BALANCES</b>		<u>(50,684,136)</u>	160,000,000
Bank balances at the beginning of the period		<u>159,910,649</u>	-
<b>BANK BALANCES AT THE END OF THE PERIOD</b>		<u><u>109,226,513</u></u>	<u><u>160,000,000</u></u>
<b>Non-cash transactions:</b>			
Employees' terminal benefits transferred from related parties	6	<u>2,472,007</u>	-

The attached notes 1 to 15 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 30 June 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).

**2 BASIS OF PREPARATION**

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

In preparing these interim condensed financial statements, the significant judgments made by the management are same as those that applied to the annual financial statements for the year ended 31 December 2019 except for the effect of Murabaha financing receivable and relevant impairment accounting policies mentioned in note 3 below.

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 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.

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 except for the effect of the following accounting policies.

**Murabaha financing receivables**

Murabaha financing receivable is measured at amortized cost if it meets both of the following conditions and is not designated as at FVSI:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

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

At 30 June 2020

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*a) Significant accounting policies (continued)*

**Impairment of Murabaha financing receivables**

The impairment allowance is based on the expected credit loss ("ECL") that is associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the Murabaha financing receivables meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and financing income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

**Measurement of ECL**

ECL are a probability-weighted estimate of credit losses. It is measured as follows:

- Murabaha financing receivables that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- Murabaha financing receivables that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn Murabaha financing commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and

**Credit-impaired Murabaha financing receivables**

At each reporting date, the Company assesses whether Murabaha financing receivables carried at amortized cost are credit-impaired. Murabaha financing receivables is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a financing or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will file for bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Murabaha financing receivables that is overdue for 90 days or more is considered impaired.

**Provisions for employees' end of service benefits**

The provision for employees' end of service benefits is accrued using actuarial valuation according to the regulations of Saudi labor law and local regulatory requirements.



**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. Please refer to note 13 on the impact of COVID-19 on ECL.

**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  
(A Saudi One Person Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 30 June 2020

4 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>For the six-month period ended 30 June</i>	
	2020 SR (Unaudited)	2019 SR (Unaudited & unreviewed)
Salaries and employees' related cost	4,785,947	-
Governmental expense	277,808	-
Depreciation	4,372	-
Others	443,597	-
	<u>5,511,724</u>	<u>-</u>

5 SHARE CAPITAL

Share capital is divided into 16,000,000 shares (unaudited) (31 December 2019: 16,000,000 shares (audited)) 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 relationship</i>	<i>Nature of transaction</i>	<i>Amount of transactions for the six-month period ended 30 June</i>	
			2020 (Unaudited) SR	2019 (Unaudited & unreviewed) SR
Al Rajhi Banking and Investment Corporation	The Shareholder	Murabaha loan (note 8)	320,000,000	-
Al Rajhi Services Company	Affiliate	Outsource staff cost	<u>1,332,833</u>	<u>-</u>

Amounts due from and to related parties are as follows:

<i>Related party</i>	<i>Nature of relationship</i>	<i>Nature of balances</i>	<i>30 June 2020 (Unaudited) SR</i>	<i>31 December 2019 (Audited) SR</i>
			Al Rajhi Banking and Investment Corporation	Shareholder
		Transfer of employees' terminal benefits	2,472,007	-

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 30 June 2020

7 MURABAHA FINANCING RECEIVABLES

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

	30 June 2020 SR (Unaudited)	31 December 2019 SR (Audited)
Gross receivables	510,635,947	-
Less: unearned finance income	(143,361,792)	-
	<u>367,274,155</u>	<u>-</u>
Less: provision for expected credit loss	(3,672,098)	-
	<u>363,602,057</u>	<u>-</u>

7 (b) Movement in provision for expected credit losses

	For the six- month period ended 30 June 2020 SR (Unaudited)	For the year ended 31 December 2019 SR (Audited)
Charge for the period	<u>3,672,098</u>	<u>-</u>

7 (c) Expected maturity

The expected maturity of the Murabaha receivables is as follows:

	30 June 2020 SR (Unaudited)	31 December 2019 SR (Audited)
Within 1 year	58,011,269	-
1 - 2 years	66,311,597	-
2 - 3 years	73,245,308	-
3 - 4 years	82,558,291	-
4 - 5 years	87,147,690	-
Total	<u>367,274,155</u>	<u>-</u>

7 (d) Aging of Murabaha financing receivables (neither past due and not impaired)

As at reporting date, the ageing of neither past due and not impaired receivables are as follows:

	< 30 days SR	Total SR
30 June 2020 (Unaudited)		
Murabaha financing receivables	<u>367,274,155</u>	<u>367,274,155</u>
31 December 2019 (Audited)		
Murabaha financing receivables	<u>-</u>	<u>-</u>

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

At 30 June 2020

**8 MURABAHA LOAN**

As at 30 June 2020, The Company has obtained a Murabaha loan from the Shareholder amounting to SR 320 million (unaudited) (31 December 2019: SR Nil (audited)). This Murabaha loan is secured by assignment of proceeds from Murabaha financing receivables and carry borrowing cost at the floating Murabaha rates of SIBOR plus 3.50% p.a. Murabaha loan balance include prepaid management fees of SR 3,170,999.

	30 June 2020 SR (Unaudited)	31 December 2019 SR (Audited)
<i>Within 1 year</i>	54,195,600	-
<i>1 - 5 years</i>	265,804,400	-
<b>Total</b>	<b>320,000,000</b>	<b>-</b>

**9 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 six-month period ended 30 June 2020 (SR nil: for the year ended 31 December 2019).

**10 BASIC AND DILUTED LOSS PER SHARE**

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

**11 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 the Risk department. 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.

*Murabaha rate risk*

Murabaha rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market Murabaha rates. The Company is subject to Murabaha rates risk on its Murabaha profit bearing assets and liabilities, including Murabaha financing receivables and Murabaha loan. The Company is not subject to Murabaha rate risk on its current financing portfolio as it charges a fixed Murabaha rates to its customers.

*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 its borrowers. Furthermore, all the Murabaha financing 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:

- Know Your Customer (“KYC”) validation;
- Income earned through cash flows;
- Collateral provided as equipment, vehicles, machineries, properties, unless exempted; and
- Valuation of above mentioned collateral within basic Finance to Value (“FTV”) ratios.

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

At 30 June 2020

11 RISK MANAGEMENT (continued)

*Credit risk (continued)*

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 three 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 Company's maximum exposure to credit risk for the components on the interim condensed statement of financial position:

	31 June 2020 SR (Unaudited)	31 December 2019 SR (Audited)
Bank balances	109,226,513	159,910,649
Murabaha financing receivables	363,602,057	-
	<u>472,828,570</u>	<u>159,910,649</u>

*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.

	<i>Less than 3 months</i> SR	<i>3-12 months</i> SR	<i>1-5 years</i> SR	<i>Total</i> SR
<i>30 June 2020 (Unaudited)</i>				
Accrued expenses and other current liabilities	1,808,720	-	-	1,808,720
Murabaha loan	13,069,649	41,125,951	265,804,400	320,000,000
<b>Total</b>	<u>14,878,369</u>	<u>41,125,951</u>	<u>265,804,400</u>	<u>339,916,381</u>
<i>31 December 2019 (Audited)</i>				
Accrued expenses and other current liabilities	-	82,793	-	82,793
	<u>-</u>	<u>82,793</u>	<u>-</u>	<u>82,793</u>

For the purpose of above disclosures, accrued Murabaha expenses has been included within Murabaha loan balance.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 30 June 2020

12 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, amount due from related parties, Murabaha financing receivables and other receivables. Financial liabilities of the Company include Murabaha loan, and accrued expenses and other current 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.

Murabaha financing receivables and Murabaha loan which are classified within level 3 of the fair value hierarchy.

Management believes that the fair value of the financial assets and liabilities included in the table below and not carried at fair value in these financial statements at the reporting date, approximate their carrying values mainly due to the short maturities of most of these financial assets and liabilities.

	30 June 2020 (Unaudited) SR	31 December 2019 (Audited) SR		
<i>Financial assets</i>				
Bank balances	109,226,513	159,910,649		
Other assets (excluding Murabaha income receivable)	25,786,558	-		
<i>Financial liabilities</i>				
accrued expenses and other current liabilities (excluding accrued Murabaha expenses)	339,916,381	43,793		
<i>Fair value of Murabaha financing receivables</i>				
	30 June 2020		31 December 2019	
	(Unaudited) Carrying value SR	(Unaudited) Fair value SR	(Audited) Carrying value SR	(Audited) Fair value SR
<i>Financial assets</i>				
Murabaha financing receivables	510,635,947	510,635,947	-	-

For determination of the fair value of Murabaha financing receivables, management assesses the market under the current conditions, and assesses the profit rates that the Company could obtain against its current portfolio. As of 30 June 2020, the fair values are not materially different from their carrying values.

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

At 30 June 2020

**12 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

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.

**13 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 steps taken by management also include commencing review of credit exposure concentrations at a more granular level.

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.

**14 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 six-month period ended 30 June 2020.

**15 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).