

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

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

FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021



Ernst and Young & Co Public Accountants (Professional Limited Liability Company)
Paid-up capital (SR 5,500,000) (Five million and five hundred thousand Saudi Riyal)
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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 Closed Joint Stock Company (the "Company") as at 30 September 2021 and the related interim condensed statements of comprehensive income, for three and nine month periods ended 30 September 2021, statements of changes in shareholder's equity and cash flows for the nine-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.

for Ernst & Young

Rashid S. Al Rashoud
Certified Public Accountant
License No. (366)

Riyadh: 22 Rabi' Al Awwal 1443H
(28 October 2021)



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

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three-month and nine-month periods ended 30 September 2021

	Notes	For the three-month period ended		For the nine-month period ended	
		30 September 2021 SR (Unaudited)	30 September 2020 SR (Unaudited)	30 September 2021 SR (Unaudited)	30 September 2020 SR (Unaudited)
OPERATING INCOME					
Murabaha financing income	4	165,764,483	46,104,470	497,498,750	52,328,253
Murabaha loan financing expense	12	(17,197,156)	(12,280,951)	(68,126,658)	(12,922,028)
NET MURABAHA FINANCING INCOME		148,567,327	33,823,519	429,372,092	39,406,225
Net gain on derecognition of Murabaha financing receivables	16	396,801,148	-	759,023,124	-
TOTAL OPERATING INCOME		545,368,475	33,823,519	1,188,395,216	39,406,225
General and administrative expenses	5	(51,424,738)	(7,501,882)	(100,461,063)	(13,013,606)
Selling and marketing expenses	6	(7,439,372)	(5,931,270)	(44,831,678)	(5,931,270)
Net impairment charge for Murabaha financing receivables	8	(219,509,884)	(21,282,710)	(309,152,495)	(24,954,808)
INCOME / (LOSS) BEFORE ZAKAT		266,994,481	(892,343)	733,949,980	(4,493,459)
Zakat	7	(31,582,951)	-	(79,792,199)	-
NET INCOME / (LOSS) FOR THE PERIOD		235,411,530	(892,343)	654,157,781	(4,493,459)
OTHER COMPREHENSIVE INCOME					
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>					
Re-measurement gain on end of service benefits		-	-	340,603	-
		-	-	340,603	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		235,411,530	(892,343)	654,498,384	(4,493,459)

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

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

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

	Notes	30 September 2021 SR (Unaudited)	31 December 2020 SR (Audited)
ASSETS			
Bank balances	9	488,721,117	97,522,677
Murabaha financing receivables	8	4,871,882,136	3,142,480,854
Prepayments and other assets		24,138,661	4,651,667
Amount due from the shareholder	9	-	8,535,036
Intangible assets	10	57,381,911	4,118,328
Property and equipment		3,208,353	839,897
Right of use asset		5,566,965	6,604,297
TOTAL ASSETS		5,450,899,143	3,264,752,756
LIABILITIES AND SHAREHOLDER'S EQUITY			
LIABILITIES			
Accrued expenses and other current liabilities	11	255,772,724	7,416,273
Lease liabilities		5,927,969	5,715,543
Murabaha loans	12	2,394,299,538	2,732,515,670
Amount due to the shareholder	9	41,667,453	-
Provision for zakat	7	81,451,308	1,659,109
Employees' defined benefit liabilities		3,020,788	3,185,182
TOTAL LIABILITIES		2,782,139,780	2,750,491,777
SHAREHOLDER'S EQUITY			
Share capital	13	2,000,000,000	500,000,000
Statutory reserve		1,443,312	1,443,312
Retained earnings		667,316,051	12,817,667
TOTAL SHAREHOLDER'S EQUITY		2,668,759,363	514,260,979
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		5,450,899,143	3,264,752,756

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

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

For the nine-month period ended 30 September 2021

	Share capital SR	Statutory reserve SR	Retained earnings / (Accumulated losses) SR	Total SR
<u>For the nine-month period ended 30 September 2021</u>				
<i>Balance as at 1 January 2021 (Audited)</i>	500,000,000	1,443,312	12,817,667	514,260,979
Net income for the period	-	-	654,157,781	654,157,781
Other comprehensive income for the period	-	-	340,603	340,603
Total comprehensive income for the period	-	-	654,498,384	654,498,384
Capital increase (note 13)	1,500,000,000	-	-	1,500,000,000
Balance as at 30 September 2021 (Unaudited)	<u>2,000,000,000</u>	<u>1,443,312</u>	<u>667,316,051</u>	<u>2,668,759,363</u>
<u>For the nine-month period ended 30 September 2020</u>				
<i>Balance as at 1 January 2020 (Audited)</i>	160,000,000	-	(172,144)	159,827,856
Net loss for the period	-	-	(4,493,459)	(4,493,459)
Total comprehensive loss for the period	-	-	(4,493,459)	(4,493,459)
Capital increase(note 13)	340,000,000	-	-	340,000,000
Balance as at 30 September 2020 (Unaudited)	<u>500,000,000</u>	<u>-</u>	<u>(4,665,603)</u>	<u>495,334,397</u>

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

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

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the nine-month period ended 30 September 2021

		30 September 2021 SR (Unaudited)	30 September 2020 SR (Unaudited)
OPERATING ACTIVITIES			
Income / (loss) before Zakat		733,949,980	(4,493,459)
<i>Adjustments for:</i>			
Amortisation of intangible assets	10	2,384,349	-
Depreciation of property and equipment		425,258	15,794
Depreciation of right of use assets		1,037,332	-
Impairment charge for Murabaha financing receivables	8	309,152,495	24,954,808
Provision for employees' defined benefit liabilities		756,370	-
Finance charge on lease		212,426	-
Net gain on derecognition of Murabaha financing receivables	16	(759,023,124)	-
		288,895,086	20,477,143
<i>Changes in operating assets and liabilities:</i>			
Murabaha financing receivables		(1,279,530,653)	(1,751,262,839)
Prepayments and other assets		(19,486,994)	(5,527,824)
Accrued expenses and other current liabilities		248,356,451	13,194,683
Amount due from shareholder		1,550,202,489	330,020,749
Cash from (used in) operating activities		788,436,379	(1,393,098,088)
Employees' terminal benefits paid		(580,161)	(312,343)
Net cash from (used in) operating activities		787,856,218	(1,393,410,431)
INVESTING ACTIVITY			
Purchase of property and equipment and intangible assets		(58,441,646)	(259,920)
Cash used in investing activity		(58,441,646)	(259,920)
FINANCING ACTIVITIES			
Proceeds from Murabaha loans		7,585,775,292	1,373,112,393
Repayment of Murabaha loans		(7,923,991,424)	-
Payment of lease liability		-	(1,304,250)
Cash (used in) from financing activities		(338,216,132)	1,371,808,143
NET INCREASE (DECREASE) IN BANK BALANCES		391,198,440	(21,862,208)
Bank balances at the beginning of the period		97,522,677	159,910,649
BANK BALANCES AT THE END OF THE PERIOD		488,721,117	138,048,441
<i>Non-cash transactions:</i>			
Employees' terminal benefits transferred (to) / from related party	9	372,807	2,417,114
Increase in share capital	13	1,500,000,000	340,000,000

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) At 30 September 2021

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
6285 Eastern Ring Branch Rd – Al Rayan Dist.
Unit No 1
Riyadh 14213 – 3203
Kingdom of Saudi Arabia

The Company is licensed by The Saudi Central Bank (“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 2020.

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 IFRS as endorsed in KSA. In addition, results for the nine-month period ended 30 September 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

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 2020. The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 which had no material impact on the Company’s interim condensed financial statements. Accounting policies related to new transactions for ‘the purchase and agency agreement’ (note 16) and ‘Intangible assets’ (note 10) are effective from current period.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

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

At 30 September 2021

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.

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 2020.

c) New standards, interpretations and amendments adopted by the Company

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the interim condensed financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

4 MURABAHA FINANCING INCOME

Murabaha income comprises of income from the following financing products:

	For the nine-month period ended	
	30 September 2021 SR (Unaudited)	30 September 2020 SR (Unaudited)
Murabaha financing income	453,523,695	45,444,119
Processing fee	43,975,055	6,884,134
	497,498,750	52,328,253

All the Murabaha financing income are from financing products which are Shariah compliant and hence unconventional in nature. Processing fee represents integral part of the financing income and the Company recognize it on Effective Interest Rate (EIR).

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

At 30 September 2021

5 GENERAL AND ADMINISTRATIVE EXPENSES

	For the nine-month period ended	
	30 September 2021 SR (Unaudited)	30 September 2020 SR (Unaudited)
Salaries and employees' related cost	47,594,048	10,657,704
Customer information inquiry fees	33,912,491	1,945,438
Amortisation of intangible assets	2,384,349	-
Professional fee	2,068,602	340,430
Depreciation on right of use assets	1,037,332	-
Depreciation of property and equipment	425,258	15,794
Other expenses	13,038,983	54,240
	<u>100,461,063</u>	<u>13,013,606</u>

6 SELLING AND MARKETING EXPENSES

	For the nine-month period ended	
	30 September 2021 SR (Unaudited)	30 September 2020 SR (Unaudited)
Sales Incentives	31,454,144	5,804,970
Marketing expenses	13,377,534	126,300
	<u>44,831,678</u>	<u>5,931,270</u>

7 ZAKAT

Charge for the period / year

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

	30 September 2021 SR (Unaudited)	31 December 2020 SR (Audited)
Balance at beginning of the period / year	1,659,109	-
Charge for the period / year	79,792,199	1,659,109
At end of the period / year	<u>81,451,308</u>	<u>1,659,109</u>

Basis of zakat charge and Status of assessments

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 allocated the Company zakat expenses of SR 79.8 million for the nine-month period ended 30 September 2021 (30 September 2020: Nil). The Shareholder has submitted the Group consolidation return for all years up to 31 December 2020.

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

At 30 September 2021

8 MURABAHA FINANCING RECEIVABLES

	30 September 2021 SR (Unaudited)	31 December 2020 SR (Audited)
Gross Murabaha financing receivables	6,775,423,319	4,440,706,571
Less: Unrealised profit	(1,538,764,287)	(1,242,491,683)
	5,236,659,032	3,198,214,888
Less: Allowance for impairment losses	(364,776,896)	(55,734,034)
Murabaha financing receivables, net	4,871,882,136	3,142,480,854

Movement in provision for expected credit losses is as follows:

	30 September 2021 SR (Unaudited)	31 December 2020 SR (Audited)
Balance at beginning of the period / year	55,734,034	-
Charge for the period / year	342,953,695	55,853,572
Written-off during the period / year	(109,633)	(119,538)
Provision reversed due to sold financing receivables (note 16)	(33,801,200)	-
At end of the period / year	364,776,896	55,734,034

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

	30 September 2021 SR (Unaudited)	31 December 2020 SR (Audited)
Neither past due nor impaired	4,400,005,464	3,167,540,395
Past due but not impaired	598,735,777	25,347,579
Past due and impaired	237,917,791	5,326,914
Total	5,236,659,032	3,198,214,888

Management classifies Murabaha financing receivables that are either not yet due or otherwise past due but for 90 days or less as “performing” while all receivables that are past due for more than 90 days are classified as “non-performing”. Below is the breakdown of performing and non-performing Murabaha financing receivables

	30 September 2021 SR (Unaudited)	31 December 2020 SR (Audited)
Performing	4,998,741,241	3,192,887,974
Non-performing	237,917,791	5,326,914
Total	5,236,659,032	3,198,214,888

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(continued)

At 30 September 2021

8 MURABAHA FINANCING RECEIVABLES (continued)

The movement in ECL allowances for impairment of financing by stages is as follows:

30 September 2021 (unaudited)	Credit loss allowance (SR)			Total
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	
Financing				
At 1 January 2021	47,667,485	4,151,267	3,915,282	55,734,034
Transfers:				
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(692,942)	788,704	(95,762)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(2,089,793)	(2,810,618)	4,900,411	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	268,788	(234,088)	(34,700)	-
Write-offs	-	-	(109,633)	(109,633)
Net Charge for the Period	69,547,163	58,395,555	181,209,777	309,152,495
At 30 September 2021	114,700,701	60,290,820	189,785,375	364,776,896

30 September 2020 (unaudited)	Credit loss allowance (SR)			Total
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	
Financing				
At 1 January 2020	-	-	-	-
Transfers:				
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-
Write-offs	-	-	-	-
Net Charge for the Period	24,300,217	654,591	-	24,954,808
At 30 September 2020	24,300,217	654,591	-	24,954,808

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(continued)

At 30 September 2021

8 MURABAHA FINANCING RECEIVABLES (continued)

The movement of financing by stages is as follows: (continued)

30 September 2021 (unaudited)	Gross carrying amount (SR)			Total
	Stage 1 Exposure	Stage 2 Exposure	Stage 3 Exposure	
Financing				
At 1 January 2021	3,167,540,395	25,347,579	5,326,914	3,198,214,888
Transfers:				
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(13,883,867)	14,014,155	(130,288)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(39,919,124)	(14,980,857)	54,899,981	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1,520,969	(1,473,758)	(47,211)	-
Write-offs	-	-	(109,633)	(109,633)
New business/ Other movements	1,284,747,091	575,828,658	177,978,028	2,038,553,777
At 30 September 2021	4,400,005,464	598,735,777	237,917,791	5,236,659,032

30 September 2020 (unaudited)	Gross carrying amount (SR)			Total
	Stage 1 Exposure	Stage 2 Exposure	Stage 3 Exposure	
Financing				
At 1 January 2020	-	-	-	-
Transfers:				
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-
Write-offs	-	-	-	-
New business/ Other movements	1,747,142,999	4,119,840	-	1,751,262,839
At 30 September 2020	1,747,142,999	4,119,840	-	1,751,262,839

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

At 30 September 2021

9 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 period and the related balances are as follows:

Related party	Nature of relationship	Nature of transaction	Amount of transactions for the nine-month period ended	
			30 September 2021 SR (Unaudited)	30 September 2020 SR (Unaudited)
Al Rajhi Banking and Investment Corporation	Shareholder	Murabaha loan (note 12) Share capital increase	7,585,775,292	1,373,112,393
Al Rajhi Banking and Investment Corporation	Shareholder	(note 13) Purchase and agency agreement (note 16)	1,500,000,000	340,000,000
Al Rajhi Banking and Investment Corporation	Shareholder	Salary and other Incentives	4,271,220,764	-
Key Management Personnel Al Rajhi Services Company	Affiliate	Outsource staff cost Transfer of employees' terminal benefits	6,577,000 11,059,999	- 685,235
Al Rajhi Services Company	Affiliate		372,807	2,417,114

Amounts due from related parties are as follows:

Related party	Nature of relationship	Nature of balances	30 September	31 December
			2021 SR (Unaudited)	2020 SR (Audited)
Al Rajhi Banking and Investment Corporation	Shareholder	Intragroup account	-	8,535,036
Al Rajhi Banking and Investment Corporation	Shareholder	Bank balances	482,174,185	97,522,677

Amounts due to related parties are as follows:

Related party	Nature of relationship	Nature of balances	30 September	31 December
			2021 SR (Unaudited)	2020 SR (Audited)
Al Rajhi Banking and Investment Corporation	Shareholder	Murabaha loan (note 12)	2,394,299,538	2,732,515,670
Al Rajhi Banking and Investment Corporation	Shareholder	Amounts payable under purchase and agency agreement (note 16)	19,384,229	-
Al Rajhi Banking and Investment Corporation	Shareholder	Intragroup account	22,283,224	-
			41,667,453	-

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(continued)

At 30 September 2021

10 INTANGIBLE ASSETS

Intangible assets include software and mobile application of the Company. These intangible assets are amortised over 5 to 10 years based on useful economic life.

	Intangible Assets SR	Capital work in progress* SR	Total (Unaudited) SR	31 December 2020 (Audited) SR
30 September 2021(unaudited)				
Cost:				
Balance at beginning of the period / year	-	4,118,328	4,118,328	-
Additions during the period / year	543,269	55,104,663	55,647,932	4,118,328
Transfer during the period / year	46,484,343	(46,484,343)	-	-
At end of the period / year	<u>47,027,612</u>	<u>12,738,648</u>	<u>59,766,260</u>	<u>4,118,328</u>
Accumulated amortisation:				
Balance at beginning of the period / year	-	-	-	-
Charge for the period (note 5) / year	(2,384,349)	-	(2,384,349)	-
At end of the period / year	<u>(2,384,349)</u>	<u>-</u>	<u>(2,384,349)</u>	<u>-</u>
Net book amounts:				
At 30 September 2021	<u>44,643,263</u>	<u>12,738,648</u>	<u>57,381,911</u>	
At 31 December 2020				<u><u>4,118,328</u></u>

* Capital work in progress represent the software cost under development. The balance as at 31 December 2020 was presented under property and equipment. In current period it is reclassified to intangible assets.

11 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	30 September 2021 SR (Unaudited)	31 December 2020 SR (Audited)
Expected defaults and early termination (note 16)	135,998,828	-
Accrued expenses	82,842,598	4,111,277
Accrued employee benefits	36,192,325	2,096,628
Others	738,973	1,208,368
	<u><u>255,772,724</u></u>	<u><u>7,416,273</u></u>

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12 MURABAHA LOANS

The Company has facilities with Al Rajhi Banking and Investment Corporation (the Shareholder) amounting to SR 3,115 million. These Murabaha loans which are secured by assignment of proceeds from receivables and carry borrowing cost at profit rates of SIBOR plus 1.25% p.a. These Murabaha loans are payable on a quarterly basis.

	30 September 2021 SR (Unaudited)	31 December 2020 SR (Audited)
Murabaha loans	2,394,299,538	2,732,515,670
Total	<u>2,394,299,538</u>	<u>2,732,515,670</u>

Murabaha loans are due within 12 months of the statement of financial positions date are classified as current liabilities as shown below.

	30 September 2021 SR (Unaudited)	31 December 2020 SR (Audited)
Current	494,299,538	502,189,151
Non-Current	1,900,000,000	2,230,326,519
Total	<u>2,394,299,538</u>	<u>2,732,515,670</u>

13 SHARE CAPITAL

Share capital is divided into 200,000,000 shares (31 December 2020: 50,000,000 shares) of SR 10 each.

In its meeting held on 27 January 2021, the Board of Directors have resolved to increase the Company capital from SR 500 million to SR 2,000 million through capitalisation of amounts due from shareholder of SR 1,500 million. The legal formalities for increase in share capital have been completed in January 2021.

In its meeting held on 28 June 2020, the Board of Directors have resolved to increase the Company capital from SR 160 million to SR 500 million through capitalisation of amounts due from shareholder of SR 340 million. The legal formalities for increase in share capital have been completed in August 2020.

14 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.

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14 RISK MANAGEMENT (continued)

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 loans. The Company is not subject to Murabaha rate risk on its current financing portfolio as it charges a fixed Murabaha rate 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.

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:

	30 September 2021 SR (Unaudited)	31 December 2020 SR (Audited)
Bank balances	488,721,117	97,522,677
Murabaha financing receivables, net	4,871,882,136	3,142,480,854
Amount due from the shareholder	-	8,535,036
	<u>5,360,603,253</u>	<u>3,248,538,567</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 September 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.

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14 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

	Less than 3 months SR	3-12 months SR	1-5 years SR	Total SR
30 September 2021 (Unaudited)				
Accrued expenses and other current liabilities	108,850,141	134,042,516	144,947,585	387,840,242
Murabaha loans	119,299,538	375,000,000	1,900,000,000	2,394,299,538
Total	<u>228,149,679</u>	<u>509,042,516</u>	<u>2,044,947,585</u>	<u>2,782,139,780</u>

	Less than 3 months SR	3-12 months SR	1-5 years SR	Total SR
31 December 2020 (Audited)				
Accrued expenses and other current liabilities	9,376,200	902,454	7,697,453	17,976,107
Murabaha loans	<u>137,969,531</u>	<u>364,219,620</u>	<u>2,230,326,519</u>	<u>2,732,515,670</u>
	<u>147,345,731</u>	<u>365,122,074</u>	<u>2,238,023,972</u>	<u>2,750,491,777</u>

15 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

Financial instruments comprise financial asset and financial liabilities. Financial assets of the Company include bank balances, amount due from related parties, Murabaha financing receivables. Financial liabilities of the Company include Murabaha loans, due to related parties 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 falls 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 interim condensed financial statements at the reporting date, approximate their carrying values mainly due to the short term maturities of most of these financial assets and liabilities.

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 September 2021, the fair values are not materially different from their carrying values.

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15 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

For assets and liabilities that are recognised in the interim condensed 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 period.

16 PURCHASE AND AGENCY AGREEMENT

During the current period, the Company has executed two purchase and agency agreements (the "agreements") with the shareholder in respect of certain Murabaha financing receivable (collectively referred as "receivables").

Under the terms of the purchase and agency agreements, the Company sold the eligible receivables to the shareholder and then will manage them on behalf of the shareholder as an agent for a fee of SR 1000 for each collection as per the terms of the purchase and agency agreements.

During the nine month period ended 30 September 2021 and as a result of the above mentioned agreements, the Company sold SR 3,372 million of its net receivables (30 September 2020: SR: nil) and the total amount received from the shareholder in respect of such sale was SR 4,271 million (30 September 2020: SR: nil). Upon sale, the Company derecognises the receivables from its books and recognises the difference as gain on derecognition of receivables (see note c).

The following are the significant terms of the agreements:

The maturity analysis of derecognised receivables is as follows:

Under purchase and agency agreements	Up to 1 year SR	2-3 years SR	After 3 years SR	Total SR
30 September 2021	1,051,845,500	2,033,610,176	991,100,093	4,076,555,769
30 September 2020	-	-	-	-

b) Each agreement is supported by a "cash flow statement" which stipulates the principal amount and the monthly receivables falling due. Under the terms of the agreements, the Company, in the capacity of an agent, settles to the shareholder monthly amount based on the cash flow statement. Any excess collections over and above the stipulated amounts and after retaining the amount for the next month's repayment are transferred monthly by the Company to the shareholder. The amount of the next month's repayment is recognised as a liability and included in due to related party (note 8).

c) During the nine month period ended 30 September 2021, the Company made gain amounting to SR 759 million (30 September 2020: SR Nil) on derecognition of receivables sold to the shareholder under the agreements, which is calculated as follows:

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16 PURCHASE AND AGENCY AGREEMENT (continued)

	Amount of transactions for the nine-month period ended	
	30 September 2021 SR	30 September 2020 SR
Gross amount of receivables	4,533,294,272	-
Less: deferred finance income	(1,161,366,680)	-
Net amount of receivables	3,371,927,592	
Provision for expected defaults and discounts under purchase and agency agreements (i)	135,998,828	-
Processing fee	4,271,220	-
Less: amounts received from the shareholder	(4,271,220,764)	-
Net gain on derecognition of receivables	(759,023,124)	-

- (i) As of 30 September 2021, under the purchase and agency agreements, the Company has made provision for expected defaults and early termination of SR 136 million (30 September 2020: SR Nil) (see note 11).

17 IMPACT OF COVID-19

A novel strain of coronavirus (COVID-19) (“the virus”) was first identified at the end of December 2019, subsequently in March 2020 it was declared as a pandemic by the World Health Organization (WHO). The virus continued to spread throughout in nearly all regions around the world including the kingdom of Saudi Arabia, which resulted in a slowdown of economic and social activities and shutdowns of many sectors at global and local levels.

In response to the rapid spread of the virus and the resulting disruption of some social and economic activities, the Company has assessed its impact on its current and future operational activities and has taken a series of preventive and precautionary measures, including activating of remote work to ensure the safety of its employees and their families.

At the end of the second quarter of 2020, the government of the Kingdom of Saudi Arabia has allowed the return of all economic and commercial activities, while observing the implementation of all preventive measures adopted, and commitment to social distancing. During the fourth quarter of 2020, several vaccines which passed the testing phase effectively and began to be manufactured and distributed globally to many countries, including the Kingdom of Saudi Arabia. As of the date of preparing these interim condensed financial statements, the Company’s operations and financial results have not incurred significant impact from the virus outbreak.

The impact of the pandemic on the Company’s operations and financial results was assessed using some judgments, estimates and assumptions that contain sources of uncertainty as it depends on several future factors and developments that cannot be reliably forecasted.

18 EVENTS AFTER REPORTING DATE

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 nine-month period ended 30 September 2021.

19 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the Board of Directors on 21 Rabi’ Al Awwal 1443H (corresponding to 27 October 2021).