

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

**CONDENSED INTERIM
FINANCIAL STATEMENTS (UNAUDITED)**
For the nine-month periods ended
30 September 2020



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Independent auditor's report on review of condensed interim financial statements

To the Shareholders of AJIL Financial Services Company

Introduction

We have reviewed the accompanying 30 September 2020 condensed interim financial statements of AJIL Financial Services Company ("the Company"), which comprises:

- the condensed statement of financial position as at 30 September 2020;
- the condensed statement of profit or loss for the three-month and nine-month periods ended 30 September 2020;
- the condensed statement of other comprehensive income for the three-month and nine-month periods ended 30 September 2020;
- the condensed statement of changes in shareholders' equity for the nine-month period ended 30 September 2020;
- the condensed statement of cash flows for the nine-month period ended 30 September 2020; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the 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 30 September 2020 condensed interim financial statements of AJIL Financial Services Company are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

Other matter

The financial statements of the AJIL Financial Services Company for the year ended 31 December 2019 and the condensed interim financial statements for the three-month and nine month periods ended 30 September 2019 were audited and reviewed respectively by another auditor who has expressed an unmodified opinion and conclusion thereon vide their reports dated 23 February 2020 and 23 October 2019 respectively.

For KPMG Al Fozan & Partners
Certified Public Accountants

Nasser Ahmed Al Shutaily
License No. 454

Jeddah, 10 Rabi Al Awal 1442H
Corresponding to 27 October 2020



KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity.

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

Expressed in Saudi Arabian Riyals

	Notes	30 September 2020 (Unaudited)	31 December 2019 (Audited)
ASSETS			
Cash and bank balances		39,296,468	37,184,787
Advances, prepayments and other receivables	6	46,846,482	41,716,586
Net investment in finance leases	4	1,192,233,315	1,347,979,745
Murabaha financing receivables	5	345,395,264	227,381,536
Margin deposits		10,676,750	13,236,934
Property and equipment		3,143,853	3,850,255
Right of use assets		1,181,688	2,189,958
Intangible assets		2,305,397	2,870,927
Equity investment at fair value through other comprehensive income		892,850	892,850
Total assets		1,641,972,067	1,677,303,578
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	7	500,000,000	500,000,000
Statutory reserve		100,572,044	100,572,044
Retained earnings		267,256,034	284,673,643
Actuarial losses on employees' defined benefit obligations		(2,911,214)	(2,911,214)
Total shareholders' equity		864,916,864	882,334,473
Liabilities			
Trade, accrued and other liabilities		56,964,056	42,309,232
Due to related parties	8	16,625,258	1,100,931
Net servicing liability for sold finance lease receivables		1,223,735	2,418,973
Lease liabilities in respect of right of use assets		320,570	1,125,860
Term loans	9	685,272,775	725,860,362
Zakat and income tax	10	580,309	6,626,618
Employees' defined benefit obligations		16,068,500	15,527,129
Total liabilities		777,055,203	794,969,105
Total shareholders' equity and liabilities		1,641,972,067	1,677,303,578

The accompanying notes 1 to 18 form an integral part of these condensed interim financial statements.

AJIL FINANCIAL SERVICES COMPANY

(A Saudi Closed Joint Stock Company)

CONDENSED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

For the three-month and nine-month periods ended 30 September 2020

Expressed in Saudi Arabian Riyals

		For the three- month period ended 30 September 2020	For the three- month period ended 30 September 2019	For the nine- month period ended 30 September 2020	For the nine- month period ended 30 September 2019
	<u>Notes</u>				
Revenues		31,392,875	38,942,242	100,642,834	121,969,618
Operating expenses					
Expected credit losses, net	4 & 5	(7,609,753)	(11,219,490)	(51,600,358)	(27,758,946)
General and administrative expenses		(14,647,884)	(13,871,266)	(42,089,555)	(41,411,094)
Depreciation of property and equipment		(360,170)	(403,319)	(1,146,126)	(1,186,347)
Amortization of right of use assets		(142,952)	(460,986)	(1,008,270)	(1,382,959)
Amortization of intangibles		(235,669)	(188,951)	(709,063)	(759,975)
Modification loss, net		(3,682,900)	--	(11,584,021)	--
Finance charges		(1,809,408)	(6,851,258)	(9,318,698)	(20,120,455)
		<u>(28,488,736)</u>	<u>(32,995,270)</u>	<u>(117,456,091)</u>	<u>(92,619,776)</u>
Profit / (loss) before zakat and income tax		2,904,139	5,946,972	(16,813,257)	29,349,842
Zakat and income tax		<u>(386,542)</u>	<u>(1,049,304)</u>	<u>(604,352)</u>	<u>(6,913,615)</u>
Net profit / (loss) for the period after zakat and income tax		<u>2,517,597</u>	<u>4,897,668</u>	<u>(17,417,609)</u>	<u>22,436,227</u>
Basic and diluted earning / (loss) per share	15	<u>0.050</u>	<u>0.098</u>	<u>(0.348)</u>	<u>0.449</u>

The accompanying notes 1 to 18 form an integral part of these interim condensed financial statements.

AJIL FINANCIAL SERVICES COMPANY

(A Saudi Closed Joint Stock Company)

CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three-month and nine-month periods ended 30 September 2020

Expressed in Saudi Arabian Riyals

	For the three- month period ended 30 September <u>2020</u>	For the three- month period ended 30 September <u>2019</u>	For the nine- month period ended 30 September <u>2020</u>	For the nine- month period ended 30 September <u>2019</u>
(Net profit) / loss for the period after zakat and income tax	2,517,597	4,897,668	(17,417,609)	22,436,227
Other comprehensive income	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total comprehensive income / (loss) for the period	<u>2,517,597</u>	<u>4,897,668</u>	<u>(17,417,609)</u>	<u>22,436,227</u>

The accompanying notes 1 to 18 form an integral part of these condensed interim financial statements.

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the nine-month period ended 30 September 2020

Expressed in Saudi Arabian Riyals

	<u>Saudi shareholders</u>	<u>Foreign shareholders</u>	<u>Total</u>
<i>For the nine-month period ended 30 September 2020</i>			
Share capital:			
Balance as at 1 January 2020 and 30 September 2020	<u>500,000,000</u>	<u>--</u>	<u>500,000,000</u>
Statutory reserve:			
Balance as at 1 January 2020 and 30 September 2020	<u>100,572,044</u>	<u>--</u>	<u>100,572,044</u>
Retained earnings:			
Balance as at 1 January 2020 (Audited)	<u>284,673,643</u>	<u>--</u>	<u>284,673,643</u>
Net loss for the period after zakat	<u>(17,417,609)</u>	<u>--</u>	<u>(17,417,609)</u>
Balance as at 30 September 2020 (Unaudited)	<u>267,256,034</u>	<u>--</u>	<u>267,256,034</u>
Actuarial losses on employees' defined benefit obligations:			
Balance as at 1 January 2020 and 30 September 2020	<u>(2,911,214)</u>	<u>--</u>	<u>(2,911,214)</u>
Total equity	<u>864,916,864</u>	<u>--</u>	<u>864,916,864</u>
<i>For the nine-month period ended 30 September 2019</i>			
Share capital:			
Balance as at 1 January 2019 (Audited)	375,000,000	125,000,000	500,000,000
Transfers (note 7)	<u>125,000,000</u>	<u>(125,000,000)</u>	<u>--</u>
Balance as at 30 September 2019 (Unaudited)	<u>500,000,000</u>	<u>--</u>	<u>500,000,000</u>
Statutory reserve:			
Balance as at 1 January 2019 (Audited)	73,611,040	24,537,013	98,148,053
Transfers (note 7)	<u>24,537,013</u>	<u>(24,537,013)</u>	<u>--</u>
Balance as at 30 September 2019 (Unaudited)	<u>98,148,053</u>	<u>--</u>	<u>98,148,053</u>
Retained earnings:			
Balance as at 1 January 2019 (Audited)	214,394,613	69,397,572	283,792,185
Profit for the period after zakat and income tax	20,513,000	1,923,227	22,436,227
Interim dividend	<u>(24,035,245)</u>	<u>--</u>	<u>(24,035,245)</u>
Transfers (note 7)	<u>71,320,799</u>	<u>(71,320,799)</u>	<u>--</u>
Balance as at 30 September 2019 (Unaudited)	<u>282,193,167</u>	<u>--</u>	<u>282,193,167</u>
Actuarial losses on employees' defined benefit obligations:			
Balance as at 1 January 2019 (Audited)	(2,210,400)	(736,800)	(2,947,200)
Transfers (note 7)	<u>(736,800)</u>	<u>736,800</u>	<u>--</u>
Balance as at 30 September 2019 (Unaudited)	<u>(2,947,200)</u>	<u>--</u>	<u>(2,947,200)</u>
Total equity	<u>877,394,020</u>	<u>--</u>	<u>877,394,020</u>

The accompanying notes 1 to 18 form an integral part of these condensed interim financial statements.

AJIL FINANCIAL SERVICES COMPANY

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CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the nine-month period ended 30 September 2020

Expressed in Saudi Arabian Riyals

	Notes	For the nine-month period ended 30 September 2020	For the nine-month period ended 30 September 2019
Operating activities			
(Loss) / profit for the period before zakat and income tax		(16,813,257)	29,349,842
Adjustments for:			
Depreciation of property and equipment		1,146,126	1,382,959
Amortization of right of use assets		1,008,270	1,186,347
Amortization of intangible assets		709,063	759,975
Expected credit losses, net	4 & 5	51,600,358	27,758,946
Employees' defined benefit obligations		1,107,657	1,700,330
Gain on disposal of property and equipment		(115)	(39,119)
Finance charges		9,297,697	9,318,698
Modification loss, net	16	11,584,021	--
Operating profit before changes in operating assets and liabilities		59,639,820	71,417,978
Changes in operating assets and liabilities			
Net investment in finance leases		92,402,630	(23,447,322)
Advances, prepayments and other receivables		(5,129,896)	48,402,622
Murabaha financing receivables		(123,363,577)	(147,165)
Margin deposits		2,560,184	--
Net servicing liability for sold finance lease receivables		(1,195,238)	153,314
Trade, accrued and other liabilities		7,313,055	(119,062,402)
Lease liabilities in respect of right of use assets		35,977	105,321
Due to related parties		15,524,327	3,134,157
Cash generated from / (used in) operations		47,787,282	(19,443,497)
Zakat and income tax paid		(6,650,661)	(5,489,988)
Finance charges paid		(1,955,928)	(9,075,870)
Employee's terminal benefits paid		(566,286)	(290,340)
Net cash generated from / (used in) operating activities		38,614,407	(34,299,695)
Investing activities			
Purchase of property and equipment and intangibles		(583,257)	(6,305,902)
Proceeds from disposal of property and equipment		115	204,021
Net cash used in investing activities		(583,142)	(6,101,881)
Financing activities			
Proceeds from term loans		240,260,643	826,465,065
Repayments of term loans		(275,338,960)	(732,600,000)
Repayment of lease liabilities		(841,267)	(1,773,000)
Dividends paid		--	(24,035,245)
Net cash (used in) / generated from financing activities		(35,919,584)	68,056,820
Net increase in cash and cash equivalents		2,111,681	27,655,244
Cash and cash equivalents at the beginning of the period		37,184,787	31,157,148
Cash and cash equivalents at the end of the period		39,296,468	58,812,392

The accompanying notes 1 to 18 form an integral part of these condensed interim financial statements.

AJIL FINANCIAL SERVICES COMPANY

(A Saudi Closed Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended 30 September 2020

Expressed in Saudi Arabian Riyals

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

AJIL Financial Services Company (the “Company” or “AJIL”) is registered in the Kingdom of Saudi Arabia under commercial registration number 4030122889, dated 30 Rajab 1418H (corresponding to 30 November 1997). The legal status of the Company was changed from a Limited Liability Company to a Closed Joint Stock Company under Ministerial Declaration number 206/Q, dated 18 Jumada Thani 1429H (corresponding to 22 June 2008), and according to Companies Law Provisions issued by Royal Decree number M/6 dated 27 Thul Quada 1417H (corresponding to 5 April 1997).

A new commercial registration certificate under the same number was issued with by the Ministry of Commerce on 11 Rajab 1429H (corresponding to 14 July 2008). The unified number of Company as per commercial registration certificate is 7001457873.

The Company’s objectives are to carry out financial leasing transactions, as well as finance productive assets to small and medium enterprises including:

- i. Financing of fixed and moveable assets, peripherals, accessories and spare parts thereof, including but not limited to industrial, agricultural, commercial, artisanal, professional, therapeutic, educational, recreational, energy, water and sewage facilities and projects; equipment used in warehouses, production equipment and machinery, equipment used in the medical field, in construction, transportation, airport, railroads and stations associated therewith; cranes and vehicles (Including Trucks, buses, trains, cars, whether manufactured or retrofitted for civil defense, airports or other such purposes), office equipment, stationery and computers; and
- ii. Buying, selling, leasing and renting commercial real estate, lands and buildings of all kinds, transferring them and disposing thereof for the purposes of finance leasing and signing finance lease contracts for all the foregoing; including registering and transferring commercial and residential real estate, lands and buildings used as collateral for financing operations related to the company’s financing activities.

The Company’s Head Office is located at the following address;

AJIL Financial Services Company
Jeddah 101 Building
Sari Street
P.O. Box 13624, Jeddah 21414
Kingdom of Saudi Arabia

On 21 Rajab 1435H (corresponding to 20 May 2014) the Company received a license from the Saudi Arabian Monetary Authority (“SAMA”) to conduct lease financing business in the Kingdom of Saudi Arabia. The Finance Companies Control Law was issued by the Saudi Council of Ministers through its publication No. 259 dated 12 Shabaan 1433H (corresponding to 2 July 2012) and the Royal Decree No. 51 dated 13 Shabaan 1433H (corresponding to 3 July 2012) and its implementing regulations were issued by SAMA for conducting lease financing business in the Kingdom of Saudi Arabia.

On 01 Muharram 1439H (corresponding to 21 September 2017), the Company received a no objection certificate from SAMA to conduct commodity murabaha business in the Kingdom of Saudi Arabia.

AJIL FINANCIAL SERVICES COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended 30 September 2020

Expressed in Saudi Arabian Riyals

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (continued)

These condensed interim financial statements include the results, assets and liabilities of the following branches:

<u>Commercial Registration Number</u>	<u>Location</u>
2050044861	Dammam
2051031244	Al-Khobar
5850027895	Abha
1010194653	Riyadh
4030612980	Jeddah

The results for the nine-month period ended 30 September 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The condensed interim financial statements of the Company as at and for the period ended 30 September 2020 have been prepared:

- in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").
- in compliance with the Companies' Law in the Kingdom of Saudi Arabia and Company's By-laws.

These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's financial statements for the year ended 31 December 2019.

The condensed interim financial statements of the Company as at and for the nine-month period ended 30 September 2020 were prepared in compliance with IAS 34.

On 17 July 2019, SAMA instructed the finance companies in the Kingdom of Saudi Arabia to account for the zakat and income tax in the condensed statement of profit or loss. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia.

The preparation of condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended 30 September 2020

Expressed in Saudi Arabian Riyals

2. BASIS OF PREPARATION (continued)

2.2 Basis of measurement

These condensed interim financial statements have been prepared under the historical cost convention using accrual basis accounting, except for the measurement at fair value of 'Investment classified as fair value through other comprehensive income' (FVOCI).

2.3 Functional and presentation currency

These condensed interim financial statements have been presented in Saudi Riyals (SR) which is also the Company's functional and presentation currency.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected by the revision. The key areas requiring significant management judgments and estimates are consistent with those disclosed in the annual financial statements for the year ended 31 December 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2019.

Effective 1 January 2019, the Company adopted IFRS 16 "leases". The impact of adoption of this standard is disclosed in note 3b to the annual financial statements for the year ended 31 December 2019.

New IFRS pronouncements, effective 1 January 2020 (refer note 17) did not have any effect on the condensed interim financial statements.

At the date of authorization of these condensed interim financial statements, various Standards and Interpretations (including amendments thereto) were in issue but not yet effective. The management anticipates that adoption of these Standards and Interpretations in future periods will have no material impact on these condensed interim financial statements (refer note 17).

AJIL FINANCIAL SERVICES COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended 30 September 2020

Expressed in Saudi Arabian Riyals

4. NET INVESTMENT IN FINANCE LEASES

	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Gross investment in finance leases (note 4.1)	1,399,929,417	1,795,551,745
Less: unearned finance income and modification losses	(116,508,844)	(144,370,148)
Net investment in finance leases (before allowance for expected credit losses)	1,283,420,573	1,651,181,597
Less: allowance for expected credit losses on finance leases (note 4.2)	(91,187,258)	(303,201,852)
Net investment in finance leases	<u>1,192,233,315</u>	<u>1,347,979,745</u>

4.1 The gross investment in finance leases include SR 3.25 million (31 December 2019: SR 6.3 million) receivable from related parties (refer note 8).

4.2 The movement in allowance for expected credit losses on finance leases is given below:

	For the nine- month period ended 30 September 2020 (Unaudited)	For the nine- month period ended 30 September 2019 (Unaudited)
At the beginning of the period	303,201,852	336,881,269
Net charge for the period	52,336,474	22,421,046
Written off during the period	(264,351,068)	(8,010,447)
At the end of the period	<u>91,187,258</u>	<u>351,291,868</u>

As per management's established policy, finance lease and murabaha receivables are written off when there is no realistic prospect of recovery. However, such receivables where written off, could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. However, write offs during the period of SR 264 million include an amount of SR 3.62 million representing receivables which have been written off as a result of negotiated settlements with the respective counterparties and are therefore, not subject to further recovery proceedings.

During the period ended 30 September 2020, expected credit loss allowance amounting to SR 6 million in respect of margin deposits maintained against securitised finance leases has been reversed due to realisation of such deposits.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

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Expressed in Saudi Arabian Riyals

5. MURABAHA FINANCING RECEIVABLES

	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Gross murabaha financing receivables	397,262,545	264,504,303
Less: unearned finance income	(39,077,084)	(26,456,126)
Murabaha financing receivables (before allowance for expected credit losses on murabaha financing receivables)	358,185,461	238,048,177
Less: allowance for expected credit losses on murabaha financing receivables (note 5.1)	(12,790,197)	(10,666,641)
Murabaha financing receivables	<u>345,395,264</u>	<u>227,381,536</u>

- 5.1 The movement in allowance for expected credit losses on murabaha financing receivables is given below:

	For the nine- month period ended 30 September 2020 (Unaudited)	For the nine- month period ended 30 September 2019 (Unaudited)
At the beginning of the period	10,666,641	2,735,977
Net charge for the period	5,349,849	5,337,900
Written off during the period	(3,226,293)	--
At the end of the period	<u>12,790,197</u>	<u>8,073,877</u>

6. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Advance payments (note 6.1)	17,049,133	28,069,278
Prepaid expenses	4,204,970	6,397,649
Advances to employees	3,497,738	3,612,110
Other receivables	22,094,641	3,637,549
	<u>46,846,482</u>	<u>41,716,586</u>

- 6.1 Advance payments mainly represent payments made to banks and musharika partners under various musharika, securitization and agency arrangements.

AJIL FINANCIAL SERVICES COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

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Expressed in Saudi Arabian Riyals

7. SHARE CAPITAL

The share capital of the Company is divided into 50,000,000 shares (31 December 2019: 50,000,000) of SR 10 each.

a) Shareholding as at 30 September 2020

<u>Name of shareholders</u>	<u>Percentage of shareholding</u>	<u>No. of shares</u>
Riyad Bank	48.46%	24,230,769
Zahid Group Holding Company Limited	34.62%	17,307,692
Al – Yemni Motors Company Limited	6.92%	3,461,539
Khaled Ahmed Al – Juffali Company	5%	2,500,000
Hussein Alireza Sons Company Limited	5%	<u>2,500,000</u>
Total		<u>50,000,000</u>

On 29 May 2019, one of the shareholders, Al-Wasilah Rent A Car Company Limited agreed to sell its entire shareholding (2,500,000 shares) to Hussein Alireza Sons Company Limited. Legal formalities for the transfer of shares are completed in all respects and share register is updated by the Company on 03 February 2020.

On 11 October 2020, one of the shareholders, Al-Yemni Motors Company Limited agreed to sell its entire shareholding (3,461,539 shares) to Al Yemni Investments. Legal formalities for the transfer of shares to the new shareholder are still in progress.

b) Shareholding as at 30 September 2019

<u>Name of shareholders</u>	<u>Percentage of shareholding</u>	<u>No. of shares</u>
Riyad Bank	48.46%	24,230,769
Zahid Group Holding Company Limited	34.62%	17,307,692
Al – Yemni Motors Company Limited	6.92%	3,461,539
Al – Wasilah Rent A Car Company Limited	5%	2,500,000
Khaled Ahmed Al – Juffali Company	5%	<u>2,500,000</u>
Total		<u>50,000,000</u>

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended 30 September 2020

Expressed in Saudi Arabian Riyals

8. RELATED PARTY TRANSACTIONS AND BALANCES

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

A summary of material balances with related parties included in the condensed statement of financial position are as follows:

<u>Related party</u>	<u>Particulars</u>	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Shareholder	Cash at bank	22,675,558	3,644,623
Shareholder	Accrued expenses and other liabilities	(242,854)	(242,852)
Shareholder	Investments in musharika	8,790,547	3,413,286
Shareholder	Term loans	(50,000,000)	(85,000,000)
Shareholder	Gross investment in finance leases	35,238	40,272
Other related parties	Investments in musharika	355,850	474,464
Other related parties	Gross investment in finance leases	3,216,712	6,303,041
Other related parties	Accounts payable	(16,625,258)	(1,100,931)

Details of significant related party transactions during the period are as follows:

<u>Related party</u>	<u>Nature of transaction</u>	For the nine- month period ended 30 September 2020 (Unaudited)	For the nine- month period ended 30 September 2019 (Unaudited)
Shareholder	Purchase of assets for leasing business	292,100	6,630,750
Shareholder	Finance charges	372,255	4,527,309
Shareholder	Term loans, net	(15,000,000)	(65,000,000)
Shareholder	Repayment against Musharika arrangements	1,163,287	366,131,964
Other related parties	Purchase of assets for leasing business	22,989,128	1,049,614
Other related parties	Payment for rental and support services	172,635	--

The transactions with related parties are approved by the Company's management. Balances arising from above transactions are as follows:

Due to related parties	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Zahid Tractor and Heavy Machinery Company Limited	15,456,913	190,336
Saudi Company of Site Technology Limited	639,345	904,347
Outsourced Client Solutions	--	6,248
EJAR Machinery Rental Alternative Company Limited	529,000	--
	16,625,258	1,100,931

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8. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Due from related parties (included in net investment in finance leases)

	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Global Gypsum Company Limited	2,171,136	4,871,136
Khaled Ahmed Al Juffaili Industrial Company	773,633	1,072,910
Nihad Abdullah Arab & Sons Limited Company	236,128	255,392
Khaled Ahmed Juffaili Construction Company	35,815	62,715
Khaled Ahmed Al – Juffali Company	35,238	40,272
Wared Transport Company	--	40,888
	<u>3,251,950</u>	<u>6,343,313</u>

Remuneration of key management personnel of the Company

Remuneration of the key management executives for the period ended 30 September 2020 was SR 4.32 million (30 September 2019: SR 4.27 million). Remuneration paid to the secretary of the Board of Directors during the period ended 30 September 2020 was amounting to SR 0.48 million (30 September 2019: SR 0.55 million).

9. TERM LOANS

	30 September 2020 (Unaudited)	31 December 2019 (Audited)
Short term loans (note 9.1)	639,974,929	669,714,286
Long term loans (note 9.2)	50,807,116	56,146,076
Less: Modification gain on deferment (note 9.1& 9.2)	<u>(5,509,270)</u>	<u>--</u>
	<u>685,272,775</u>	<u>725,860,362</u>

- 9.1 These represent short term loans drawn from various local banks against credit lines of SR 2,657 million (31 December 2019: SR 2,657 million). These facilities carry fixed special commission rate and are repayable within 6 months from the condensed statement of financial position date. These facilities are collateralized against promissory notes issued by the Company. The Modification gain on deferment includes an amount of SR 4.92 million in respect of deferment of short-term loans (refer note 16).

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9. TERM LOANS (continued)

- 9.2 This represent long term concessional loan received under the agreement concluded between the General Commission for Small and Medium Enterprises (“SME”) and the Social Development Bank (“SDB”) in respect of the indirect loaning initiative towards activating the role of the loaning funds and the financing companies and motivating them to have a bigger and more effective role in the financing of small and medium enterprises within the private sector reinforcement program (“Monsha’at Program”). Through Monsha’at Program, the Company finance SMEs at reduced rate and the benefit is transferred to the respective customers. This long-term loan is repayable in fixed monthly instalments with last instalment due in July 2023. The modification gain on deferment includes an amount of SR 0.58 million in respect of deferment of medium-term loans (refer note 16).
- 9.3 Government grant amounting to SR 3.1 million have been received under the agreement concluded between the General Commission for Small and Medium Enterprises and the Social Development Bank in respect of the indirect loaning initiative described above. There are no unfulfilled conditions or contingencies attached to these grants.

10. ZAKAT AND INCOME TAX

During the quarter ended 31 March 2019, the Company reached a settlement agreement with the General Authority for Zakat & Income Tax (“GAZT”), to settle the zakat liability for previous years (i.e. 2014 to 2017) and accordingly assessments have been finalized for the respective years.

The Company is calculating Zakat accruals for the period ended 30 September 2020 based on the new Zakat rules for financing activities.

Status of assessments

Zakat and tax assessments have been finalised up to the years ended 31 December 2017.

The Company has submitted Zakat and tax return for the year ended 31 December 2018 in accordance with the settlement agreement with GAZT.

Due to COVID-19 outbreak, GAZT extended the deadline to submit Zakat and tax return for the year ended 31 December 2019 to 29 July 2020 and has issued the unrestricted Zakat and Tax Certificate valid until 30 April 2021 without submission of return. Accordingly, the Company has submitted the Zakat and tax return for the year ended 31 December 2019 within the stipulated timeline.

11. FAIR VALUE 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 in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. 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

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11. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The principal or the most advantageous market must be accessible to the Company. The Company's financial assets consist of cash and bank balances, murabaha financing receivables, margin deposits - restricted and other receivables, its financial liabilities consist of trade payables, short term loans, due to related parties, net servicing liability for sold finance lease receivables and other liabilities.

12. CONTINGENCIES AND COMMITMENTS

There were no contingencies, outstanding letters of credit or commitments at 30 September 2020 and 31 December 2019.

13. DIVIDEND

Dividend distribution for the period ended 30 September 2019 was approved in the general assembly meeting held on 26 June 2019. No zakat and income tax adjustment has been made against the dividend approved for distribution.

14. FINANCIAL RISK MANAGEMENT

a) Credit risk management

The Company has strengthened its credit risk management policies to address the fast changing and evolving risks posed by the current circumstances. These include review of concentrations at granular economic sector, region, counterparty level including consideration of impacts of government and SAMA support, collateral protection, timely review and rating action and appropriately restructuring loans where required. All such measures are discussed and approved by the Risk Committee.

b) Liquidity risk management

The Company is aware of the need to keep a close focus on liquidity management during this period and has further enhanced its daily monitoring of liquidity as well as increasing the number of meetings. The Company acknowledges the timely action of SAMA and other government bodies in providing support and assurance to the financial markets.

c) Operational risk management

The Company responded quickly to the crisis and established an internal group to focus on the impacts of the pandemic and the effects on the Company. Furthermore, it put in place contingency plans allowing a significant proportion of employees to work from home. On need basis, employees were also permitted to visit the Company's offices on a restricted basis whilst following government guidelines at all times. The Company's investment in its IT and digital infrastructure has allowed clients to use the Company's facilities at minimal inconvenience during this period of Company closure whilst employees were able to work from home with minimal impact on effectiveness. Existing processes and controls have operated as normal throughout this period.

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15. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the total comprehensive income for the period by the weighted average number of shares outstanding during the period. The calculation of diluted earnings per share is not applicable to the Company.

16. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS

The Coronavirus (“COVID-19”) pandemic continues to disrupt global markets as many geographies are beginning to experience a “second wave” of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia (“the Government”) however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. This has entailed reviewing specific economic sectors, regions and counterparties and taking appropriate customer credit rating actions and initiating restructuring of finance leases and murabaha financing receivables where required.

The Company has also revised certain inputs and assumptions used for the determination of expected credit losses (“ECL”). The revisions mainly revolved around:

- adjusting macroeconomic factors/inputs used by the Company in its ECL model including observed default rates;
- revisions to the scenario probabilities; and
- refinement of staging criteria in light of the SAMA support measures and to effectively identify exposures where lifetime ECL losses may have been triggered despite repayment holidays.

The Company’s ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement exercise. 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.

SAMA support programs and initiatives

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises (“MSME”) as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program;
- Loan guarantee program; and
- Point of sale (“POS”) and e-commerce service fee support program.

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16. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS (continued)

As part of the deferred payments program launched by SAMA, the Company was required to defer payments for six months on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower’s potential cash flow issues. The Company effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September for a period of six months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of net financing income. The Company continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk.

Further to the above, on 1 September 2020, SAMA extended the deferred payments program by allowing additional three months payment deferrals for eligible MSMEs until 14 December 2020. The Company has affected the payment reliefs by deferring the instalments falling due within the period from 15 September 2020 to 14 December 2020 for a period of additional three months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of the arrangement. This resulted in the Company recognizing an additional modification loss of SR 6.3 million during the period ended 30 September 2020.

Since the inception of the deferred payments program by SAMA and by the end of Q3 2020, the Company has recognised SR 24.95 million of related modification losses of which SR 7.85 million have been unwound.

Furthermore, in accordance with the PSFSP, the Company is also eligible for the deferral of its loan instalment payment to the banks and Saudi Real Estate Re-financing Company. Accordingly, the Company has recognised total modification gains of SR 14.08 million during the nine months period ended 30 September 2020. Moreover, during the nine months period ended 30 September 2020, modification gains amounting to SR 8.57 million were unwound.

As at 30 September 2020, the Company is yet to participate in SAMA’s loan guarantee program.

In April 2020, SAMA issued further guidance to financing companies around providing the necessary support for individual customers that lost their jobs in the private sector due to COVID-19, whether directly or indirectly. The Company has not identified any customer who are eligible for this program until 30 September 2020. The Company will continue to consider the guidance issued and evaluate any accounting impact as and when the case arises.

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17. NEW STANDARDS OR AMENDMENTS FOR 2020 AND FORTHCOMING REQUIREMENTS

New currently effective requirements: This table lists the recent changes to the standards that are required to be applied by an entity with an annual reporting beginning on 1 January 2020.

Effective date	New standards or amendments
1 January 2020	Amendments to References to Conceptual Framework in IFRS standards
	Definition of a Business Combination (Amendments to IFRS 3)
	Definition of Material (Amendments to IAS 1 and IAS 8)
	Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The management believes that the above pronouncement have no material impact on these condensed interim financial statements.

Forthcoming requirements:

Effective date	New standards or amendments
1 January 2023	IFRS 17 Insurance Contracts
1 January 2023	Classification of liabilities as Current or Non-current (Amendments to IAS1)
Available for optional adoption / effective date deferred indefinitely	Sales or Contributions of Assets between an Investor and its Associates or Joint Venture (Amendments to IFRS 10 and IAS 28)

18. BOARD OF DIRECTORS' APPROVAL

These condensed interim financial statements were approved by the Board of Directors on 10 Rabi Al Awal 1442H, corresponding to 27 October 2020.