

**Morabaha Marina Financing Company
(A Saudi Joint Stock Company)**

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

**FOR THE THREE-MONTH PERIOD ENDED
31 MARCH 2021**



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**INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED
FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF
MORABAHA MARINA FINANCING COMPANY
(A Saudi Joint Stock Company)**

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Morabaha Marina Financing Company - A Saudi Joint Stock Company (the "Company") as at 31 March 2021, and the related interim condensed statements of comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended 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") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim 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 endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Rashid S. AlRashoud
Certified Public Accountant
License No. (366)

Riyadh: 14 Ramadan 1442H
(26 April 2021)



Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three-month period ended 31 March 2021

	<i>Notes</i>	2021 (Unaudited) SR	2020 (Unaudited) SR
Special commission income	3	29,355,188	25,944,297
Special commission expense		(5,278,855)	(9,410,634)
NET SPECIAL COMMISSION INCOME		24,076,333	16,533,663
Other income, net	4	4,054,495	3,836,804
General and administration expenses	5	(10,513,438)	(7,390,473)
Impairment losses on Islamic financing receivables	6	(6,844,525)	(5,128,579)
INCOME BEFORE ZAKAT		10,772,865	7,851,415
Zakat	8	(1,811,952)	(1,601,689)
NET INCOME FOR THE PERIOD		8,960,913	6,249,726
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		8,960,913	6,249,726
Basic and diluted earnings per share		0.32	0.22

The accompanying notes 1 to 19 form an integral part of these interim condensed financial statements

Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

	<i>Notes</i>	31 March 2021 (Unaudited) SR	31 December 2020 (Audited) SR
ASSETS			
Cash and cash equivalents		73,342,862	89,064,757
Restricted cash deposits		-	2,023,184
Prepayments and other assets		17,949,118	13,002,576
Investment at fair value through OCI		892,850	892,850
Islamic financing receivables	6	861,511,182	793,636,024
Repossessed asset held for sale	6	56,106,251	66,606,251
Right-of-use assets		5,039,264	5,436,060
Intangible assets		4,877,234	4,957,212
Property and equipment		4,872,747	5,132,583
TOTAL ASSETS		1,024,591,508	980,751,497
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable, accruals and other liabilities	7	9,988,050	8,793,452
Provision for zakat	8	2,212,896	7,188,728
Borrowings	9	669,672,571	631,150,654
Lease liabilities		4,838,794	5,177,403
Employees' terminal benefits		3,592,131	3,115,107
TOTAL LIABILITIES		690,304,442	655,425,344
SHAREHOLDERS' EQUITY			
Share capital	10	280,500,000	280,500,000
Proposed increase in share capital	11	30,855,000	-
Statutory reserve		13,194,711	13,194,711
Retained earnings		9,737,355	31,631,442
TOTAL SHAREHOLDERS' EQUITY		334,287,066	325,326,153
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,024,591,508	980,751,497

The accompanying notes 1 to 19 form an integral part of these interim condensed financial statements

Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the three-month period ended 31 March 2021

	<i>Share capital SR</i>	<i>Statutory reserve SR</i>	<i>Proposed increase in share capital SR</i>	<i>Retained earnings SR</i>	<i>Total SR</i>
<i>For the three-month period ended 31 March 2020</i>					
Balance at 1 January 2020	255,000,000	9,793,700	-	26,522,340	291,316,040
Proposed increase in share capital	-	-	25,500,000	(25,500,000)	-
Net income for the period	-	-	-	6,249,726	6,249,726
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	6,249,726	6,249,726
Balance at 31 March 2020	<u>255,000,000</u>	<u>9,793,700</u>	<u>25,500,000</u>	<u>7,272,066</u>	<u>297,565,766</u>
<i>For the three-month period ended 31 March 2021</i>					
Balance at 1 January 2021	280,500,000	13,194,711	-	31,631,442	325,326,153
Proposed increase in share capital (note 11)	-	-	30,855,000	(30,855,000)	-
Net income for the period	-	-	-	8,960,913	8,960,913
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	8,960,913	8,960,913
Balance at 31 March 2021	<u>280,500,000</u>	<u>13,194,711</u>	<u>30,855,000</u>	<u>9,737,355</u>	<u>334,287,066</u>

The accompanying notes 1 to 19 form an integral part of these interim condensed financial statements

Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the three-month period ended 31 March 2021

	Notes	2021 (Unaudited) SR	2020 (Unaudited) SR
OPERATING ACTIVITIES			
Income before zakat		10,772,865	7,851,415
Adjustments for:			
Modification loss on Islamic financing receivables	3	(227,177)	9,072,005
Modification gain on bank borrowings	3	843,263	(7,218,201)
Impairment losses on Islamic financing receivables	6	6,844,525	5,128,579
Depreciation of right of use assets		396,796	410,542
Depreciation and amortisation		554,141	424,507
Provision for employees' terminal benefit		570,771	27,251
Finance charge on lease		71,391	84,060
		<u>19,826,575</u>	<u>15,780,158</u>
<i>Operating cash flows before working capital changes:</i>			
Working capital adjustments:			
Islamic financing receivables		(74,492,506)	(30,697,035)
Prepayments and other assets		(2,923,358)	(1,749,563)
Repossessed asset held for sale		10,500,000	-
Accounts payable, accruals and other liabilities		1,194,598	(2,508,172)
		<u>(45,894,691)</u>	<u>(19,174,612)</u>
Cash used in operations		(45,894,691)	(19,174,612)
Lease obligation paid		(410,000)	(467,500)
Zakat paid		(6,787,784)	-
Employees' terminal benefits paid		(93,747)	-
		<u>(53,186,222)</u>	<u>(19,642,112)</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		(117,327)	(102,247)
Purchase of intangible assets		(97,000)	(83,525)
		<u>(214,327)</u>	<u>(185,772)</u>
FINANCING ACTIVITIES			
Proceeds from borrowings		83,000,000	-
Repayment of borrowings		(45,321,346)	(37,658,904)
		<u>37,678,654</u>	<u>(37,658,904)</u>
Net cash from (used in) financing activities		37,678,654	(37,658,904)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(15,721,895)	(57,486,788)
Cash and cash equivalents at the beginning of the period		89,064,757	156,581,005
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		73,342,862	99,094,217
SIGNIFICANT NON-CASH TRANSACTIONS			
Proposed increase in share capital		30,855,000	25,500,000
Special commission received		19,330,840	26,216,897
Special commission paid		(3,645,726)	(7,498,851)

The accompanying notes 1 to 19 form an integral part of these interim condensed financial statements

Morabaha Marina Financing Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

At 31 March 2021

1 ACTIVITIES

Morabaha Marina Financing Company (the “Company”) is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia (“KSA”) under commercial registration numbered 1010337706 dated 14 Jumad Al Thani 1433H (corresponding to 5 May 2012).

The Company's head office address is:
Morabaha Marina Financing Company
P.O Box 8055
Riyadh 14925
Kingdom of Saudi Arabia

The Company is engaged in leasing and providing financing facilities to small and medium enterprises and consumers in addition to financing production assets and offering consumer finance in accordance with the Saudi Arabian Monetary Authority (“SAMA”) approval number 22/201410 dated 19 Dhul Qadah 1435H (corresponding to 13 September 2014).

2 BASIS OF PREPARATION

a. Statement of compliance

The interim condensed financial statements of the Company as at and for the three-month period ended 31 March 2021 have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia. These interim condensed financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company’s annual financial statements for the year ended 31 December 2020.

In preparing these interim condensed financial statements, the significant judgments made by the management are same as those that applied to the financial statements for the year ended 31 December 2020.

These interim condensed financial statements have been presented in Saudi Riyals which is also the functional currency of the Company and are rounded off to the nearest thousands.

The Company presents its statement of financial position in order of liquidity based on the Company’s intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item.

b. Significant accounting judgments, estimates and assumptions

The preparation of the Company’s interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The outbreak of novel coronavirus (“COVID-19”) since early 2020, its spread across mainland China and then globally caused disruptions to businesses and economic activity globally including the Kingdom of Saudi Arabia and the declaration of this pandemic by the World Health Organization necessitated the Company’s management to revisit its significant judgments in applying the Company’s accounting policies and the methods of computation and the key sources of estimation applied to the annual financial statements for the year ended 31 December 2020. Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, the Company’s management carried out an impact assessment on the overall Company’s operations and business aspects including factors like supply chain, travel restrictions, oil prices, product demand, etc. and concluded that, as of the issuance date of these interim condensed financial statements, no significant changes are required to the judgements and key estimates. However, in view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

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.

Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

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

At 31 March 2021

2 BASIS OF PREPARATION (continued)

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

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed financial statements of the Company.

- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments provide temporary relief that address the impact on financial reporting 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; and
 - 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.

The Company is assessing the impact of reform on the business.

d. Significant accounting policies and estimates

The accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2020.

An interim period is considered an integral part of the whole fiscal year, however, the results of operations for the interim periods may not be a fair indication of the results of the full year operations.

3 SPECIAL COMMISSION INCOME

Special commission income comprises of income from the following financing products:

	<i>For the three-month period ended 31 March</i>	
	2021	2020
	(Unaudited)	(Unaudited)
	SR	SR
Tawarruq	28,456,724	25,464,434
Ijara	898,464	322,195
Murabaha	-	157,668
	29,355,188	25,944,297

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

At 31 March 2021

4 OTHER INCOME, NET

	<i>For the three-month period ended 31 March</i>	
	2021 <i>(Unaudited)</i> SR	2020 <i>(Unaudited)</i> SR
Recovery of Islamic financing receivables written off	2,483,158	2,030,490
Income from early settlement fees	1,354,996	730,214
Income from short term deposits	216,341	844,089
Others	-	232,011
	4,054,495	3,836,804

5 GENERAL AND ADMINISTRATION EXPENSES

	<i>For the three-month period ended 31 March</i>	
	2021 <i>(Unaudited)</i> SR	2020 <i>(Unaudited)</i> SR
Salaries and employee related costs	6,640,181	4,441,178
Depreciation and amortisation	951,871	835,048
Bank charges	292,310	395,309
Professional fee	821,736	354,236
Insurance	193,360	342,880
Repair and maintenance	520,121	194,281
Utilities	164,535	130,154
Others	929,324	697,387
	10,513,438	7,390,473

Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

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

At 31 March 2021

6 ISLAMIC FINANCING RECEIVABLES, NET

	<i>Tawarruq receivables</i>		<i>Ijara receivables</i>		<i>Murabaha receivables</i>		<i>Total</i>	
	<i>31 March 2021</i> <i>(Unaudited)</i> <i>SR</i>	<i>31 December 2020</i> <i>(Audited)</i> <i>SR</i>	<i>31 March 2021</i> <i>(Unaudited)</i> <i>SR</i>	<i>31 December 2020</i> <i>(Audited)</i> <i>SR</i>	<i>31 March 2021</i> <i>(Unaudited)</i> <i>SR</i>	<i>31 December 2020</i> <i>(Audited)</i> <i>SR</i>	<i>31 March 2021</i> <i>(Unaudited)</i> <i>SR</i>	<i>31 December 2020</i> <i>(Audited)</i> <i>SR</i>
Gross Islamic financing receivables	1,135,705,701	1,058,450,052	58,166,483	49,019,125	93,226	154,060	1,193,965,410	1,107,623,237
Less: Unrealised profit	(287,711,333)	(273,027,342)	(15,566,661)	(13,013,885)	(5,975)	(9,579)	(303,283,969)	(286,050,806)
	847,994,368	785,422,710	42,599,822	36,005,240	87,251	144,481	890,681,441	821,572,431
Less: Allowance for impairment losses	(28,985,632)	(27,750,535)	(176,512)	(172,875)	(8,115)	(12,997)	(29,170,259)	(27,936,407)
Islamic financing receivables, net	819,008,736	757,672,175	42,423,310	35,832,365	79,136	131,484	861,511,182	793,636,024

All the financing facilities provided by Company are Shariah compliant, accordingly they are unconventional in nature.

An analysis of risk concentration in gross carrying amounts and corresponding ECL in the loans portfolio by type is presented below:

31 March 2021 (unaudited)

	<i>Gross Carrying Amount</i>				<i>Allowance for ECL</i>				<i>ECL Coverage %</i>			
	<i>Stage 1 SR</i>	<i>Stage 2 SR</i>	<i>Stage 3 SR</i>	<i>Total SR</i>	<i>Stage 1 SR</i>	<i>Stage 2 SR</i>	<i>Stage 3 SR</i>	<i>Total SR</i>	<i>Stage 1 %</i>	<i>Stage 2 %</i>	<i>Stage 3 %</i>	<i>Total %</i>
Tawarruq	719,974,643	65,573,306	62,446,419	847,994,368	4,680,298	7,373,291	16,932,043	28,985,632	0.7%	11.2%	27.1%	3.4%
Ijara	41,486,862	1,033,430	79,530	42,599,821	60,987	36,463	79,062	176,512	0.1%	3.5%	99.4%	0.4%
Murabaha	-	-	87,251	87,251	-	-	8,115	8,115	0.0%	0.0%	9.3%	9.3%
	761,461,505	66,606,736	62,613,200	890,681,441	4,741,285	7,409,754	17,019,220	29,170,259	0.6%	11.1%	27.2%	3.3%

31 December 2020 (Audited)

	<i>Gross carrying amount</i>				<i>Allowance for ECL</i>				<i>ECL Coverage %</i>			
	<i>Stage 1 SR</i>	<i>Stage 2 SR</i>	<i>Stage 3 SR</i>	<i>Total SR</i>	<i>Stage 1 SR</i>	<i>Stage 2 SR</i>	<i>Stage 3 SR</i>	<i>Total SR</i>	<i>Stage 1 %</i>	<i>Stage 2 %</i>	<i>Stage 3 %</i>	<i>Total %</i>
Tawarruq	685,651,786	40,018,914	59,752,010	785,422,710	5,055,529	3,244,048	19,450,958	27,750,535	0.7%	8.1%	32.6%	3.5%
Ijara	35,433,902	485,074	86,264	36,005,240	153,650	16,723	2,502	172,875	0.4%	3.4%	2.9%	0.5%
Murabaha	6,115	6,876	131,490	144,481	23	362	12,612	12,997	0.4%	5.3%	9.6%	9.0%
Total	721,091,803	40,510,864	59,969,764	821,572,431	5,209,202	3,261,133	19,466,072	27,936,407	0.7%	8.1%	32.5%	3.4%

Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

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

At 31 March 2021

6 ISLAMIC FINANCING RECEIVABLES, NET (continued)

Analysis of credit quality of Islamic financing receivables was as follows:

	<i>31 March 2021 (Unaudited) SR</i>	<i>31 December 2020 (Audited) SR</i>
Neither past due nor impaired	634,905,854	594,156,641
Past due but not impaired	217,638,327	164,510,837
Past due and impaired	38,137,260	62,904,953
	<u>890,681,441</u>	<u>821,572,431</u>

Management classifies the Islamic 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 Islamic financing receivables:

	<i>31 March 2021 (Unaudited) SR</i>	<i>31 December 2020 (Audited) SR</i>
Performing	825,236,854	758,667,478
Non-performing	65,444,586	62,904,953
	<u>890,681,440</u>	<u>821,572,431</u>

Movement in the allowance for impairment losses was as follows:

	<i>31 March 2021 (Unaudited) SR</i>	<i>31 December 2020 (Audited) SR</i>	<i>31 March 2020 (Unaudited) SR</i>
At beginning of the period / year	27,936,407	22,793,032	22,793,032
Charge for the period / year	6,844,525	23,440,525	5,128,579
Written-off during the period / year	(5,610,673)	(18,297,150)	(2,027,284)
At end of the period / year	<u>29,170,259</u>	<u>27,936,407</u>	<u>25,894,327</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

(UNAUDITED) (continued)

At 31 March 2021

6 ISLAMIC FINANCING RECEIVABLES, NET (continued)

The following table shows reconciliations from the opening to the closing balance of the impairment allowance for financings to customers at amortized cost.

31 March 2021	12 month ECL SR	Lifetime ECL not credit impaired SR	Lifetime ECL credit impaired SR	Total SR
Financings to customers at amortized cost				
Balance at 1 January 2020	5,209,202	3,261,133	19,466,072	27,936,407
Transfer to 12 month ECL	455,908	(455,908)	-	-
Transfer to Lifetime ECL not credit impaired	(385,484)	2,147,387	(1,761,903)	-
Transfer to Lifetime ECL credit impaired	(64,859)	(32,769)	97,628	-
Charge for the year	(473,482)	2,489,912	4,828,095	6,844,525
Write-offs	-	-	(5,610,673)	(5,610,673)
Balance as at 31 March 2021	4,741,285	7,409,755	17,019,219	29,170,259
31 December 2020	12 month ECL SR	Lifetime ECL not credit impaired SR	Lifetime ECL credit impaired SR	Total SR
Financings to customers at amortized cost				
Balance at 1 January 2020	2,898,416	2,657,348	17,237,268	22,793,032
Transfer to 12 month ECL	3,232,965	(10,638)	(3,222,327)	-
Transfer to Lifetime ECL not credit impaired	(3,459,966)	4,019,497	(559,531)	-
Transfer to Lifetime ECL credit impaired	(9,117,896)	(31,270)	9,149,166	-
Charge for the year	11,655,683	(3,373,804)	15,158,646	23,440,525
Write-offs	-	-	(18,297,150)	(18,297,150)
Balance as at 31 December 2020	5,209,202	3,261,133	19,466,072	27,936,407

REPOSSESSED ASSET HELD FOR SALE

During current and prior year, the Company acquired a real estate properties against defaulted Tawarruq receivables. Based on the external valuation by Olat Properties Management (OPM) and Moheet Al-Jazirah Company, of real estate properties, fair value of the related properties are more than net realisable value of Islamic financing receivables. Accordingly as at 31 March 2021, these assets are recognized at net realisable value of Islamic financing receivables amounting to SR 56.11 million (31 December 2020 – SR 66.6 million).

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(A Saudi Joint Stock Company)

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

At 31 March 2021

7 ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	31 March 2021 (Unaudited) SR	31 December 2020 (Audited) SR
Accounts payable	4,954,087	4,326,933
Accrued expenses	3,067,667	2,431,863
Accrued special commission expenses	1,385,396	1,284,605
Others	580,900	750,051
	9,988,050	8,793,452

8 ZAKAT

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

	For the three- month period ended 31 March 2021 (Unaudited) SR	For the year ended 31 December 2020 (Audited) SR	For the three- month period ended 31 March 2020 (Unaudited) SR
At beginning of the period / year	7,188,728	3,137,744	3,137,744
Charge for the period / year	1,811,952	5,873,024	1,601,689
Paid during the period	(6,787,784)	(1,822,040)	-
At end of the period / year	2,212,896	7,188,728	4,739,433

Status of assessments

The Company has filed its zakat returns with the General Authority of Zakat and Income Tax (“GAZT”) for all previous years up to 2020. The Company had finalized its zakat assessments for all the years until 2017 while the assessments for the years 2018 to 2020 are still under review by the GAZT.

Morabaha Marina Financing Company
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

(UNAUDITED) (continued)

At 31 March 2021

9 BORROWINGS

The table below shows the details of the borrowings obtained by the Company:

	<i>31 March 2021 (Unaudited) SR</i>	<i>31 December 2020 (Audited) SR</i>
A Bank borrowings	224,538,484	190,147,834
B Sukuk payable	115,152,239	130,331,977
C Borrowings from a government entity	329,981,848	310,670,843
	<u>669,672,571</u>	<u>631,150,654</u>
Current portion	339,255,775	285,690,520
Non-current portion	330,416,796	345,460,134
	<u>669,672,571</u>	<u>631,150,654</u>

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

A) The table below shows the details of the bank borrowings obtained by the Company:

	<i>31 March 2021 (Unaudited) SR</i>	<i>31 December 2020 (Audited) SR</i>
Islamic financing (see notes i and ii below)	227,609,950	194,130,190
Unamortised upfront charges	(3,071,466)	(3,982,356)
	<u>224,538,484</u>	<u>190,147,834</u>
Current portion	150,155,291	113,062,159
Non-current portion	74,383,193	77,085,675
	<u>224,538,484</u>	<u>190,147,834</u>

Islamic financing shown above includes:

- i) The balance of five (2020: four) revolving Islamic facilities for a total amount of SR 127.67 million (2020: SR 87.02 million) as at 31 March 2021 at 4% + SIBOR. Each of these facilities is for an original term of one year and renewable for additional periods of one year each at the lender's option up to a total of four years and carry special commission at floating commercial rates. The facilities are secured by an assignment of receivables. Since the option to refinance or roll over the facilities is at the lender's discretion therefore these facilities are classified as a current liability in these financial statements.
- ii) the balance of four (2020: Five) other Islamic facilities for a total amount of SR 96.86 million (2020: SR 103.12 million) obtained from commercial banks to finance the Islamic financing assets of the Company at a rate of interest from 2.75% to 3.5%. The facilities are secured by assignment of receivables and are repayable on a monthly basis over 48 installments.

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9 BORROWINGS (continued)

B) The table below shows the details of the sukuk payable issued by the Company:

	<i>31 March 2021 (Unaudited) SR</i>	<i>31 December 2020 (Audited) SR</i>
Islamic financing through Sukuk	117,866,667	133,433,334
Less: unamortised upfront charges	(2,714,428)	(3,101,357)
	115,152,239	130,331,977
	62,266,668	62,266,667
Current portion	52,885,571	68,065,310
Non-current portion	115,152,239	130,331,977

In February 2018, the Company issued Sukuk with an aggregate principal of SR 178 million. The Sukuk carry a fixed rate of interest at 8% per annum due for settlement on a quarterly basis. The Sukuk's principal is due to be repaid in quarterly instalments commencing from May 2018, with the final instalment due in February 2023.

In December 2019, the Company issued a new Sukuk with an aggregate principal of SR 80 million. The Sukuk carry a fixed rate of interest at 6% per annum due for settlement on a quarterly basis. The Sukuk's principal is due to be repaid in quarterly instalments commencing from March 2020, with the final instalment due in December 2022.

Both the Sukuks are secured by assignment of Islamic financing receivables..

C) The table below shows the details of the loan obtained by the Company from a government entity:

	<i>31 March 2021 (Unaudited) SR</i>	<i>31 December 2020 (Audited) SR</i>
Current portion	126,833,817	110,361,694
Non-current portion	203,148,031	200,309,149
	329,981,848	310,670,843

During September 2018 and December 2018, the Company received loans from Social Development Bank (government entity) amounting to SR 20 million and SR 36 million, respectively. The loan has to be repaid in monthly instalments commencing from December 2018 and April 2019, respectively, with the final instalment due in November 2021 and March 2022, respectively.

During 2020 and 2021, the Company has participated in funding for lending program by SAMA and received funding in 15 instalments total of SR 220 million and funding from SAMA which is interest free funding with varying maturities, starting from September 2023 to May 2024.

The above loans received by the Company from a Social Development Bank carries special commission at rates significantly lower than the currently prevailing market rates while the loan received from SAMA is interest free. These loans provided to the Company carry a number of conditions, one of which is that these loans are to be used for providing loans to specific types/sectors of customers at discounted rates. The benefit being the impact of the "lower than market value" or "interest free" loans obtained by the Company had been identified and accounted for as "government grant" and has initially been recorded as deferred income and classified within "accounts payables, accruals and others". Such benefit is being recognised in statement of comprehensive income of the Company on a systematic basis as the expense, for which such grant is intended to compensate.

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9 BORROWINGS (continued)

Further, during 2020, the Company obtained loans from Social Development Bank amounting to SR 150 million at the prevailing market rates at 2.32% to 3.56%. The maturity of the loans starting from June 2023 to October 2025.

10 SHARE CAPITAL

Share capital is divided into 28.05 million shares (2020: 28.05 million shares) of SR 10 each.

11 PROPOSED INCREASE IN SHARE CAPITAL

The Board of Directors in their meeting held on 9 Rajab 1442H (corresponding to 21 February 2021) resolved to increase the share capital of the Company from SR 280.5 million to SR 311 million from retained earnings. The legal formalities required to enforce the increase in share capital have not been completed as at 31 March 2021 and therefore such amount is presented as proposed increase in share capital.

12 RELATED PARTIES TRANSACTIONS AND BALANCES

Significant transactions arising from transactions with related parties are as follows:

<i>Related parties</i>	<i>Nature of transactions</i>	<i>For the three-month period ended 31 March</i>	
		<i>2021</i> <i>(Unaudited)</i> SR	<i>2020</i> <i>(Unaudited)</i> SR
Key management personnel	Compensation – salaries and other incentive	1,690,000	1,540,000
	Provision for employees' defined benefit liabilities	477,024	27,250
Below are the balances receivables from key management personnel as at year end:			
Key management personnel	Islamic financing receivables	47,105	1,854,381

13 FINANCIAL INSTRUMENTS AND FAIR VALUE

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, restricted cash deposits, investment, Islamic financing receivables and other receivables. Financial liabilities consist of borrowings, accounts payable and other payables.

Fair value hierarchy

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

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(UNAUDITED) (continued)

At 31 March 2021

13 FINANCIAL INSTRUMENTS AND FAIR VALUE (continued)

Fair value hierarchy (continued)

Following table indicates fair value level hierarchy of the financial instruments of the Company. Islamic financing receivables and investment held at fair value through other comprehensive income (FVTOCI) are classified within level 3 of the fair value hierarchy while the rest of the financial assets and financial liabilities of the Company are classified within level 2 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.

	31 March 2021 (Unaudited) SR	31 December 2020 (Audited) SR
<i>Financial assets</i>		
Cash and cash equivalents	73,342,862	89,064,757
Restricted cash deposits	-	2,023,184
Other assets (excluding special commission receivable)	16,869,020	7,548,701
<i>Financial liabilities</i>		
Accounts payables, accruals and other liabilities (excluding accrued special commission expense)	8,602,655	7,508,848

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.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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 levels of fair value hierarchy during the current period and prior year.

Fair value of Islamic financing receivables

	<u>31 March 2021</u>		<u>31 December 2020</u>	
	<i>(Unaudited) Carrying value SR</i>	<i>(Unaudited) Fair value SR</i>	<i>(Audited) Carrying value SR</i>	<i>(Audited) Fair Value SR</i>
<i>Financial assets</i>				
Islamic financing receivables	861,511,182	902,447,092	793,636,024	832,732,972

For determination of the fair value of Islamic financing receivables, management assesses the market under the current conditions, and assesses the profit rates that the Company could obtain against its current portfolio. The portfolio is segregated into various categories. The profit rates over the last five years have been assessed and used as a base for the discount rate relating to the valuation of the portfolio. Premiums have then been added to each category based on the prevailing economic conditions in the country. The premiums move from 50 basis points to 250 basis points.

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13 FINANCIAL INSTRUMENTS AND FAIR VALUE (continued)

Fair value of Islamic financing receivables (continued)

The initial base rate, before premiums, were calculated using the average quoted rate against contracts for the last five years. This quoted rate was compared to the average effective yield that the contracts generate to derive the factor to translate the quoted rate to an effective rate in order to lift the base rate from a quoted rate to an effective rate. The average of the quoted rate for the Company's portfolio over this period was 14.25%, and the average effective rate for this same portfolio was 18.32%, resulting in a lift factor of 0.88x.

Deemed premium for each category has been added to the base quoted rate, and the lift factor of 0.88x was applied to arrive at the effective yield which was used as a proxy discount rate to fair value the portfolio.

The cash flows of each category were discounted using the proxy discount rate applicable to each category to arrive at the fair value of the portfolio. Provision carried against the portfolio was then deducted to compare the carrying value to the deemed fair value.

The discount rates used range from 18.82% to 20.82%.

Fair value of borrowings (including accrued special commission expense)

The fair value of bank borrowings is based on discounted value of expected future cash flows using the applicable market rates for similar types of instrument as of reporting date. The fair value of Sukuk payable and loans from a government entity at the reporting date are considered equal to their carrying value as the funding was recently raised by the Company. The table below shows the fair value of bank borrowings as at 31 March 2020 and 31 December 2019, respectively.

	31 March 2021 (Unaudited)		31 December 2020 (Audited)	
	Carrying value SR	Fair value SR	Carrying value SR	Fair value SR
<i>Financial liabilities</i>				
Bank borrowings	<u>224,538,484</u>	<u>237,725,273</u>	<u>190,147,834</u>	<u>199,922,851</u>
Sukuk payable	<u>115,152,239</u>	<u>130,506,747</u>	<u>130,331,977</u>	<u>147,317,224</u>
Borrowings from a government entity	<u>329,981,848</u>	<u>337,481,240</u>	<u>310,670,843</u>	<u>318,904,594</u>

Fair Value of Investment at FVOCI

Management believes that the fair value of investment at FVOCI approximates its carrying value.

14 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and foreign currency 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 management. The most important types of risk are summarised below.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

(UNAUDITED) (continued)

At 31 March 2021

14 FINANCIAL RISK MANAGEMENT(continued)

Credit risk

The Company's maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as disclosed in the table below.

	31 March 2021 (Unaudited) SR	<i>31 December 2020 (Audited) SR</i>
Cash at bank	73,342,862	89,064,757
Restricted cash deposits	-	2,023,184
Islamic financing receivables, net	861,511,182	793,636,024
Other assets	7,467,000	7,513,701
	942,321,044	892,237,666

Special commission rate risk

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Company is subject to special commission rate risk on its special commission bearing assets and liabilities, including bank deposits, Islamic financing receivables and borrowings.

The bank borrowings of the Company carry special commission at variable rate while all other borrowings carry fixed rate of special commission. The Company uses derivative financial instruments (special commission rate swap) to hedge the Company's exposure to the fluctuations in special commission rates in respect of some of the borrowings carrying special commission risk at variable rates and therefore management believes that the Company is not exposed to special commission rate risk in respect of such borrowings as well as other fixed rate borrowings as those are not carried at fair values.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Company's statement of comprehensive income relating to the floating rate borrowings for which the Company does not use derivatives for hedging. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net commission income for one year, based on such floating rate borrowings held as at the reporting date. All the exposures are monitored and analysed in major currency concentrations and relevant sensitivities are disclosed in SR.

	31 March 2021 (Unaudited)	
	<i>Change in basis points</i>	<i>Increase (decrease) in net income SR</i>
Saudi Riyals	+50	182,286
Saudi Riyals	-50	(182,286)
	31 March 2020 (Unaudited)	
	<i>Change in basis points</i>	<i>Increase (decrease) in net income SR</i>
Saudi Riyals	+50	(286,031)
Saudi Riyals	-50	286,031

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

(UNAUDITED) (continued)

At 31 March 2021

14 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that bank facilities are available.

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

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at the reporting date based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date.

	<i>Within 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Total SR</i>
31 March 2021 (Unaudited)				
Accounts payable, accruals and other liabilities	6,141,697	391,638	515,824	7,508,548
Borrowings*	45,338,037	293,917,739	330,416,796	669,672,571
	<u>51,479,734</u>	<u>294,309,377</u>	<u>330,932,620</u>	<u>676,721,731</u>
	<i>Within 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Total SR</i>
31 December 2020 (Audited)				
Accounts payable, accruals and other liabilities	6,724,709	268,314	515,824	7,508,847
Borrowings*	38,531,175	248,307,573	345,460,134	632,298,882
	<u>45,255,884</u>	<u>248,575,887</u>	<u>345,975,958</u>	<u>639,807,729</u>

* Accrued special commission expense as at the reporting date has been included as part of borrowings for the purpose of the above disclosure.

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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At 31 March 2021

15 CAPITAL MANAGEMENT

For the purpose of the Company's management, capital includes issued capital and all other equity reserves attributable to the equity holders. The primary objective of the Company's capital management is to maximise the shareholders value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. The Company informally monitors capital using a gearing ratio, which is 'net debt' divided by total capital plus net debt. The Company includes within net debt, borrowings, employees' defined benefit liabilities, lease liabilities, zakat payable, less cash and bank balances.

	<i>31 March 2021 (Unaudited) SR</i>	<i>31 December 2020 (Audited) SR</i>
Short term loans	669,672,571	631,150,654
Lease liability	4,838,794	5,177,403
Employees' terminal benefits	3,592,131	3,115,107
Provision for zakat	2,212,896	7,188,728
Less: Bank balances and cash	73,342,862	89,064,757
Net debt	753,659,254	735,696,649
Equity	334,287,066	325,326,153
Capital and net debt	1,087,946,320	1,061,022,802
Gearing ratio	225%	226%

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 / third 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. The Government has approved number of vaccines for mass immunizations. The drive is in full swing and it is expected that majority of the population will be vaccinated in near future.

The Company continues to evaluate the current situation through conducting stress-testing scenarios on expected movements of oil prices and other macroeconomic variables and their impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the impact COVID-19 outbreak has had on its normal operations and financial performance. The steps taken by management includes ongoing review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The credit reviews also take into consideration the impact of the Government and SAMA support relief programmes.

The prevailing economic conditions which are severely affected by the ongoing pandemic, require the Company to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These primarily revolve around either adjusting macroeconomic factors used by the Company in the estimation of expected credit losses and revisions to the scenario probabilities currently being used by the Company in ECL estimation. In 2020, the Company made certain adjustments to the macroeconomic factors and scenario weightings.

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

At 31 March 2021

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

The Company’s ECL model continues to be sensitive to macroeconomic variables and scenario weightings. 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 judgemental and the Company will continue to reassess its position and the related impact on a regular basis.

SAMA support programs and initiatives

Private Sector Financing Support Program (“PSFSP”)

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;
- Funding for lending program;
- Facility guarantee program; and
- Point of sale (“POS”) and e-commerce service fee support program.

Deferred payments program:

As part of the deferred payments program launched by SAMA in March 2020 and with a number of extensions to the program subsequently announced, the Company is required to defer payments on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower’s potential cash flow issues. The Company has effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 30 June 2021, and increasing the facility tenors accordingly. 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.

The accounting impact of above 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 arrangement. This resulted in total modification losses amounting to SR 20.89 million of which SR 3.5 million has been recorded in current quarter which have been presented as part of net financing income. During the three-month period ended 31 March 2021, SR 3.7 million (2020: SAR 13.2 million) has been charged to the statement of income relating to unwinding of modification losses.

Deferred payments program (continued):

In order to compensate the modification loss that the Company is expected to incur in deferring the payments, the Company as an SME, received option to defer payments for fifteen months (including extension referred above) from its bank borrowings. The Company has effected this by deferring the instalments falling in the same fifteen months period. This has resulted in the Company recognising a day 1 modification gain of SR 16.3 million. As at 31 March 2021, Company offset SR 13.9 million as unwinding of recorded modified gain. The net impact of day 1 modification gain and unwinding of recorded modified gain has been presented as part of special commission income.

Funding for lending program:

The Company has received SAR 220 million from SAMA for granting credit facilities to eligible MSMEs under Funding for Lending program. The funding received qualified for the government grant treatment. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 19.3 million, which has been recognized in the statement of comprehensive income as day 1 gain.

The management has exercised certain judgements in the recognition and measurement of above modification loss, gain and government grant.

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17 SEGMENT INFORMATION

The Company objective is to provide financing for Retails & SME`s. The Company has only one geographical segment and it operates in the Kingdom of Saudi Arabia. All assets, liabilities and operations as reflected in the statement of financial position and statement of comprehensive income belongs to the Retail & SME`s segment. For management purposes, the Company is organised into the following primary business segments:

Retail

These represents financing products granted to individuals customers.

SME

These represents finance products granted to small and medium sized businesses (SMEs).

Head office

Head office is responsible for managing the surplus liquidity of the Company through short term market placements. It also provides support services to the business functions.

The Company's total assets and liabilities at 31 Mar 2021 and 31 Mar 2020 and its total operating income, expenses and net income for the years then ended are as follows:

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17 SEGMENT INFORMATION (continued)

	<i>Retail</i> SR	<i>SME's</i> SR	<i>Head office</i> SR	<i>Total</i> SR
<i>Statement of comprehensive income</i>				
<i>31 Mar 2021 (unaudited)</i>				
Income	26,030,010	7,163,334	216,339	33,409,683
Expense	12,735,316	11,713,454	-	24,448,770
Segment Profit	13,294,694	(4,550,119)	216,339	8,960,913
<i>31 Mar 2020 (unaudited)</i>				
Income	22,561,532	6,375,480	844,089	29,781,101
Expense	12,257,447	11,273,928	-	23,531,375
Segment Profit	10,304,085	(4,898,448)	844,089	6,249,726
<i>Statement of financial position</i>				
<i>31 Mar 2021 (unaudited)</i>				
Total Assets	477,985,122	439,632,311	106,974,075	1,024,591,508
Total Liabilities	355,186,578	326,686,939	8,430,925	690,304,442
<i>31 Dec 2020</i>				
Total Assets	448,098,515	412,143,760	120,509,222	980,751,497
Total Liabilities	337,090,225	310,042,609	8,292,510	655,425,344

18 EVENTS AFTER REPORTING DATE

There have been no events subsequent to the reporting date that would significantly affect the amounts reported in the interim condensed financial statements as at and for the three month period ended 31 March 2021.

19 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements have been approved by the Board of Directors on 10 Ramadan 1442H (corresponding to 22 April 2021).