

**RAYA FINANCING COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

**CONDENSED INTERIM FINANCIAL INFORMATION
(UNAUDITED)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS
ENDED 30 JUNE 2021 AND REPORT ON REVIEW OF
INTERIM FINANCIAL INFORMATION**

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2021

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Report on review of interim financial information

To the shareholders of Raya Financing Company:
(A Saudi Closed Joint Stock Company)

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Raya Financing Company as of 30 June 2021 and the related condensed statement of comprehensive income for the three-month and six-month periods then ended and the condensed statements of changes in equity and cash flows for the six-month period ended 30 June 2021 and other explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34), as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed interim financial information 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", as 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, as 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 condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

PriceWaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Omar M. Al Sagga', is written over the printed name.

Omar M. Al Sagga
License number 369

4 August 2021

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 30 June 2021 <u>(Unaudited)</u>	As at 31 December 2020 <u>(Audited)</u>
Assets			
Non-current assets			
Right-of-use assets		2,819,677	3,508,125
Property and equipment		717,663	648,512
Intangible assets		4,696,206	5,411,618
Net investment in finance leases - non-current portion	3	166,169,996	158,640,928
Net investment in murabaha finance - non-current portion	4	57,588,390	48,052,879
Financial asset at fair value through other comprehensive income		892,850	892,850
Total non-current assets		232,884,782	217,154,912
Current assets			
Net investment in finance leases - current portion	3	111,458,463	85,405,462
Net investment in murabaha finance - current portion	4	48,793,871	36,217,034
Prepayments and other receivables	5	13,845,875	11,377,928
Cash and cash equivalents	6	107,486,972	148,452,810
Total current assets		281,585,181	281,453,234
Total assets		514,469,963	498,608,146
Liabilities and equity			
Liabilities			
Non-current liabilities			
Long-term borrowings	7	197,414,084	210,892,221
Lease liabilities - non-current portion		2,630,276	3,037,419
Employee benefit obligations		2,554,290	3,012,634
Total non-current liabilities		202,598,650	216,942,274
Current liabilities			
Current maturity of long-term borrowings	7	100,225,597	77,329,350
Accounts payable	9	75,279,669	64,630,414
Accrued and other liabilities	8	16,109,505	17,683,004
Lease liabilities - current portion		437,008	655,116
Zakat payable	10	1,306,197	1,216,458
Total current liabilities		193,357,976	161,514,342
Total liabilities		395,956,626	378,456,616
Equity			
Share capital		150,000,000	150,000,000
Accumulated losses		(31,486,663)	(29,848,470)
Net equity		118,513,337	120,151,530
Total liabilities and equity		514,469,963	498,608,146

The accompanying notes from 1 to 12 form an integral part of this condensed interim financial information.

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the three-month period ended 30 June		For the six-month period ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)	2021 (Unaudited)	2020 (Unaudited)
Income					
Finance revenue		13,335,986	11,979,284	26,084,366	24,395,594
Gain on modification of long-term borrowings		549,148	20,544	549,148	1,322,570
		13,885,134	11,999,828	26,633,514	25,718,164
Expenses					
Impairment of financial assets	3, 4	(1,125,078)	(3,656,780)	(475,891)	(7,125,453)
Insurance and other cost of financed vehicles		(2,928,997)	(3,313,231)	(5,898,333)	(6,925,801)
Salaries and employee related expenses		(5,538,910)	(5,959,532)	(10,295,491)	(10,592,125)
Depreciation and amortization		(507,851)	(706,901)	(1,086,801)	(1,291,072)
Gain (loss) on modification of finance lease and murabaha finance receivables, net of grant income	11	314,319	(1,769,858)	(2,161,617)	(3,762,234)
Finance cost		(1,898,087)	(2,177,685)	(3,666,443)	(4,309,335)
Other expenses		(2,039,174)	(1,837,561)	(3,818,277)	(2,875,783)
Profit (loss) before zakat		161,356	(7,421,720)	(769,339)	(11,163,639)
Zakat expense		(451,016)	(369,877)	(868,854)	(607,782)
Loss for the period		(289,660)	(7,791,597)	(1,638,193)	(11,771,421)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the period		(289,660)	(7,791,597)	(1,638,193)	(11,771,421)

The accompanying notes from 1 to 12 form an integral part of this condensed interim financial information.

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Accumulated losses	Total
Balance at 31 December 2020 audited	150,000,000	(29,848,470)	120,151,530
Loss for the period	-	(1,638,193)	(1,638,193)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	-	(1,638,193)	(1,638,193)
Balance at 30 June 2021 - unaudited	150,000,000	(31,486,663)	118,513,337
Balance at 31 December 2019 - audited	150,000,000	(35,620,720)	114,379,280
Loss for the period	-	(11,771,421)	(11,771,421)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	-	(11,771,421)	(11,771,421)
Balance at 30 June 2020 - unaudited	150,000,000	(47,392,141)	102,607,859

The accompanying notes from 1 to 12 form an integral part of this condensed interim financial information.

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the six-month period ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
Cash flows from operating activities			
Loss before zakat		(769,339)	(11,163,639)
<u>Adjustments for</u>			
Provision for impairment of financial assets	3, 4	475,891	7,125,453
Depreciation		371,389	575,658
Amortization		715,412	715,414
Loss on derecognition of leases		21,450	-
Finance costs		3,666,443	4,309,335
Employee benefit obligations		(458,344)	301,664
Loss on modification of finance lease and murabaha finance receivables, net of grant income	11	2,161,617	3,762,234
Gain on modification of long-term borrowings	11	(549,148)	(1,322,570)
<u>Changes in working capital</u>			
Net investment in finance leases and murabaha finance		(58,646,244)	(29,951,320)
Prepayments and other receivables		(2,467,947)	659,590
Accounts payable		10,649,255	(12,517,316)
Accrued and other liabilities		(1,708,966)	1,472,071
Net cash used in operating activities		(46,538,531)	(36,033,426)
Cash flows from investing activities			
Payments for purchase of property and equipment		(189,590)	(34,309)
Cash flows from financing activities			
Proceeds from long-term borrowings		40,516,872	185,860,750
Repayment of long-term borrowings		(31,225,440)	(73,706,015)
Interest paid on long-term borrowings		(2,450,102)	(2,607,892)
Finance charges paid to a shareholder		-	(914,357)
Finance lease liabilities paid		(299,932)	(643,723)
Zakat paid	10	(779,115)	-
Repayment of loan from a shareholder		-	(65,000,000)
Net cash generated from financing activities		5,762,283	42,988,763
Net change in cash and cash equivalents		(40,965,838)	6,921,028
Cash and cash equivalents at beginning of period		148,452,810	54,670,331
Cash and cash equivalents at end of period		107,486,972	61,591,359
Supplemental cash flow information			
<u>Non-cash investing and financing activities:</u>			
Right-of-use assets recorded against lease liabilities		-	336,078
Deferred grant income		-	3,746,579
Derecognition of right-of-use assets upon termination of leases		438,194	-
Derecognition of lease liabilities upon termination of leases		416,744	-

The accompanying notes from 1 to 12 form an integral part of this condensed interim financial information.

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the condensed interim financial information
For the three-month and six-month periods ended 30 June 2021 (Unaudited)
(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Raya Financing Company (the “Company”) is a Saudi closed joint stock company, registered in the Kingdom of Saudi Arabia under the Commercial Registration (“CR”) number 2050104609 issued in Dammam on 8 Rabi II 1436H (28 January 2015) and operating under the Saudi Central Bank (SAMA) approval number 351000153064 dated 25 Dhul Hijjah 1435H (19 October 2014). The Company has obtained the license from SAMA to conduct finance leasing activities on 14 Jumada II 1437H (23 June 2016). The registered address of the Company is P.O. Box 336, Dammam 31411, Kingdom of Saudi Arabia.

The Company is effectively wholly owned by Al Majdouie Holding Company Limited (the “Parent Company”, a limited liability company registered in the Kingdom of Saudi Arabia) through certain of its wholly owned subsidiaries in the Kingdom of Saudi Arabia. The Parent Company is ultimately controlled by Sheikh Ali Ibrahim Saleh Al Majdouie.

2 Basis of preparation

The condensed interim financial information of the Company as at 30 June 2021 and for the three-month and six-month periods ended 30 June 2021 has 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 issued by the Saudi Organisation for Chartered and Professional Accountants (SOCPA).

The condensed interim financial information does not include all information and disclosures required in the annual audited financial statements and should be read in conjunction with the annual audited financial statements for the year ended 31 December 2020.

The principal accounting policies applied in the preparation of condensed interim financial information of the Company are consistent with those of the previous financial year and corresponding interim reporting period.

2.1 New and amended standards

A number of new or amended standards became applicable for the current reporting period. The Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

3 Net investment in finance leases

Reconciliation between gross and net investment in finance leases is as follows:

	30 June 2021	31 December
	(Unaudited)	2020
		(Audited)
Gross investment in finance leases	359,099,039	319,007,621
Unearned finance income	(72,336,335)	(65,558,130)
Present value of minimum lease payments receivable	286,762,704	253,449,491
Provision for impairment of lease receivables	(9,134,245)	(9,403,101)
Net investment in finance leases	277,628,459	244,046,390
Net investment in finance leases - non-current portion	(166,169,996)	(158,640,928)
Net investment in finance leases - current portion	111,458,463	85,405,462

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The movement in provision for impairment of lease receivables is as follows:

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
Opening balance	9,403,101	6,386,306
(Reversal) charge for the period / year	(268,856)	3,016,795
Closing balance	9,134,245	9,403,101

4 Net investment in murabaha finance

Reconciliation between gross and net murabaha finance is as follows:

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
Gross investment in murabaha finance	124,428,631	98,778,908
Unearned murabaha finance income	(16,592,633)	(13,800,005)
	107,835,998	84,978,903
Provision for impairment	(1,453,737)	(708,990)
Net investment in murabaha finance	106,382,261	84,269,913
Investment in murabaha finance - non-current portion	(57,588,390)	(48,052,879)
Investment in murabaha finance - current portion	48,793,871	36,217,034

The movement in provision for impairment of murabaha finance receivables is as follows:

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
Opening balance	708,990	69,081
Charge for the period / year	744,747	639,909
Closing balance	1,453,737	708,990

5 Prepayments and other receivables

	Note	30 June 2021	31 December 2020
		(Unaudited)	(Audited)
Prepayments		7,079,275	3,880,361
Advances to suppliers		2,770,616	1,545,392
Repossessed assets held for resale		1,492,246	707,022
Insurance claims		669,632	872,243
Advances to related parties	9	1,497,891	1,956,000
Advance repayments of long-term borrowings		-	1,136,991
Other		336,215	1,279,919
		13,845,875	11,377,928

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6 Cash and cash equivalents

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
Cash in hand	44,610	110,424
Cash at bank	107,442,362	148,342,386
	107,486,972	148,452,810

7 Long-term borrowings

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
Murabaha facilities	155,599,716	167,349,730
Government bank loan	107,256,021	85,824,600
Payable to SAMA	34,449,397	32,680,262
Accrued finance cost	334,547	2,366,979
	297,639,681	288,221,571

Long-term borrowings are presented as follows:

Current maturity shown under current liabilities	100,225,597	77,329,350
Long-term borrowings	197,414,084	210,892,221
	297,639,681	288,221,571

During the six-months period ended 30 June 2021, the Company entered into agreements with a government bank to provide financing facilities amounting to Saudi Riyals 32.0 million to meet the working capital requirements of the Company, which were fully utilised during the period. Administrative fee is charged by government bank under the loan agreements.

The covenants of the borrowing facilities restrict the Company to utilise the loan amount for the purpose specified in the loan agreement. The carrying value of such long-term borrowing is denominated in Saudi Riyals. The repayment of such loans as per the repayment schedule is up to 2024.

Also see Note 11.

8 Accrued and other liabilities

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
Advance from customers	8,547,619	7,602,234
Accrued liabilities	6,054,180	6,819,485
Net servicing liability under agency agreement	-	1,538,631
VAT payable	1,507,706	1,722,654
	16,109,505	17,683,004

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9 Related party transactions and balances

9.1 Significant transactions with related parties in the ordinary course of business during the period were as follows:

Nature of transaction	Relationship	For the three-month period ended 30 June		For the six-month period ended 30 June	
		2021	2020	2021	2020
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Purchases of motor vehicles	Shareholder	33,832,989	28,928,964	69,004,163	44,229,327
Commission income on lease of motor vehicles	Shareholder	554,012	-	1,349,911	-
Finance cost	Shareholder	-	97,991	-	708,059
Lease payments	Affiliate	100,625	111,303	206,781	222,606

Key management personnel compensation

Short term employee benefits	547,201	688,974	982,147	1,416,887
Employee benefit obligations	62,855	25,796	84,743	77,268
Board of Directors fees	40,000	15,000	57,000	60,000

9.2 Accounts payable include the following amounts due to related parties:

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
Al Majdouie Motors Company Limited (“Motors”) – shareholder	66,083,380	51,373,238
Al Majdouie Holding Company Limited - Parent company	53,573	95,449
Al Majdouie Trading Establishment	-	30,906
Al Majdouie Manufacturing Company	-	1,109
Arjaa Travel and Tourism Company	20,185	3,185
Arsal Operation and Maintenance Company - shareholder	15,117	47,606
Al Majdouie Logistics Company Limited - shareholder	-	14,028
	66,172,255	51,565,521

Balance payable to Motors outstanding for more than 30 days from the date of the respective underlying invoice bears financial charges at prevailing market rates.

9.3 Advances to related parties

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
Al Majdouie Manufacturing Company	1,454,891	1,956,000
Arsal Operation and Maintenance Company - shareholder	43,000	-
	1,497,891	1,956,000

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10 Zakat payable

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
Opening balance	1,216,458	(218,129)
Provision for the period / year	868,854	1,434,587
Payments	(779,115)	-
Closing balance	1,306,197	1,216,458

11 Impact of COVID-19 on expected credit losses (“ECL”) and SAMA and other public authorities’ programs

The Coronavirus (“COVID-19”) pandemic continues to disrupt global markets and local markets due to multiple waves and variants of the virus. The Government of the Kingdom of Saudi Arabia has taken effective measures to control the outbreak and mitigate its potential impact on the social and economic activities.

Management continues to evaluate the current situation and its impact on the Company’s key performance indicators in order to take necessary steps, as needed, to mitigate any possible disruptions to operational and financial performance of the Company. The steps taken by management also include review of credit exposure concentrations, customer credit ratings and appropriately restructuring loans, where required. These also take into consideration the impacts of government and SAMA support relief programmes.

These current events and the prevailing economic condition require the Company to revise certain inputs and assumptions used for the determination of expected credit losses (“ECL”). These primarily revolve around adjusting macroeconomic factors used by the Company in 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. The Company’s ECL model continues to be sensitive to such macroeconomic variables and the Company continues to reassess its position.

SAMA and other public authorities’ 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 eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises (“MSME”) as defined by SAMA via Circular No. 38100064902 dated 16 Jumada II 1438H.

As part of the deferred payments program (“DPP”) 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.

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Further to the above, SAMA on 22 June 2021 announced the extension of the DPP for three additional months from 1 July 2021 to 30 September 2021, for MSMEs that are still affected by the COVID-19 precautionary measures. SAMA clarified that for this extension MSMEs will be subject to the assessment by the finance companies to the extent to which these MSMEs are still affected by the COVID-19 precautionary measures, in order to be qualified for the extension in accordance with the DPP guidelines issued by SAMA. As at 30 June 2021 the Company was in the process of performing such assessment to determine the pool of customers eligible for deferment and accordingly will defer the instalments falling due from 1 July 2021 to 30 September 2021 and extend the tenure of the applicable loans at no additional costs to the customer during Q3 2021.

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 Saudi Riyals 17.2 million of which Saudi Riyals 2.5 million has been recorded in the six-month period ended 30 June 2021, which have been presented net of grant income in profit or loss. During the six-months period ended 30 June 2021, Saudi Riyals 6.3 million has been charged to profit or loss relating to unwinding of modification losses.

In order to compensate the related cost that the Company is expected to incur under the SAMA and other public authorities program, during 2020 and 2021 the Company received profit free deposits from SAMA amounting to Saudi Riyals 43.8 million with varying maturities, which qualify as government grants. Management has determined based on the communication from SAMA that the government grants primarily relate to compensation for the modification losses incurred on the deferral of payments. The benefits of the subsidised funding rate have been accounted for on a systematic basis, in accordance with government grant accounting requirements. The management has exercised certain judgements in the recognition and measurement of such grant income. Total income of Saudi Riyals 2.4 million arose on these profit free deposits of which Saudi Riyals 0.3 million has been recorded in the six-month period ended 30 June 2021 in profit or loss.

12 Date of authorization of issue

The accompanying condensed interim financial information was authorized for issue by the Company's Board of Directors on 4 August 2021.