

**BAB RIZQ JAMEEL MICROFINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
AND REVIEW REPORT**

**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED
30 SEPTEMBER 2019**

**BAB RIZQ JAMEEL MICROFINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month and nine-month periods ended 30 September 2019

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REVIEW REPORT

To the shareholders of
Bab Rizq Jameel Microfinance Company
(a Saudi Closed Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Bab Rizq Jameel Microfinance Company (A Saudi Closed Joint Stock Company) ("the Company") as at 30 September 2019 and the related interim condensed statement of comprehensive income, for the three-month and nine-month periods then ended, and the interim condensed statements of changes in shareholders' equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes, which form an integral part of these interim condensed financial statements. The Company's management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard "Interim Financial Reporting" (IAS 34) as endorsed in the Kingdom of Saudi Arabia ("KSA"). 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", as endorsed in the KSA. A review of interim condensed financial statements consists of making inquiries, primarily of the 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 (ISAs) as endorsed in the KSA 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 as endorsed in the KSA.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

27 October 2019
28 Safar 1441H

Jeddah

20/10/MQ



BAB RIZQ JAMEEL MICROFINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 September 2019

		<i>30 September</i>	<i>31 December</i>	<i>1 January</i>
	<i>Notes</i>	<i>2019</i>	<i>2018</i>	<i>2018</i>
		<i>SR</i>	<i>SR</i>	<i>SR</i>
		<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	3	434,682	107,936	90,441
Intangible assets		722,548	625,039	327,378
Financing and advances, net	4	50,424,501	19,825,335	-
Employees' receivables		770,236	363,276	-
TOTAL NON-CURRENT ASSETS		52,351,967	20,921,586	417,819
CURRENT ASSETS				
Financing and advances, net	4	50,763,447	31,685,322	-
Prepayments and other receivables		1,222,496	366,713	251,118
Cash and bank balances	5	9,903,397	47,540,242	99,946,804
TOTAL CURRENT ASSETS		61,889,340	79,592,277	100,197,922
TOTAL ASSETS		114,241,307	100,513,863	100,615,741
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital	1	100,000,000	100,000,000	100,000,000
Accumulated losses		(6,208,065)	(5,068,040)	(535,436)
Actuarial losses		(473,000)	(473,000)	-
TOTAL SHAREHOLDERS' EQUITY		93,318,935	94,458,960	99,464,564
NON-CURRENT LIABILITY				
Employees' benefits liabilities		2,418,675	2,089,000	-
CURRENT LIABILITIES				
Accrued expenses and other payables	6	2,350,778	1,039,367	132,573
Due to related parties	7	16,008,901	2,032,003	1,018,604
Zakat payable		144,018	894,533	-
TOTAL CURRENT LIABILITIES		18,503,697	3,965,903	1,151,177
TOTAL LIABILITIES		20,922,372	6,054,903	1,151,177
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		114,241,307	100,513,863	100,615,741

The attached notes 1 to 17 form an integral part of these unaudited interim condensed financial statements.

BAB RIZQ JAMEEL MICROFINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three-month and nine-month periods ended 30 September 2019

	<i>Notes</i>	<i>For the three month period ended 30 September 2019 SR Unaudited</i>	<i>For the three month period ended 30 September 2018 SR Unaudited Restated (Note 14)</i>	<i>For the nine month period ended 30 September 2019 SR Unaudited</i>	<i>For the nine month period ended 30 September 2018 SR Unaudited Restated (Note 14)</i>
Revenues	8	2,984,518	572,335	7,136,426	752,545
Direct cost		(47,176)	(35,568)	(153,368)	(70,308)
GROSS MARGIN		2,937,342	536,767	6,983,058	682,237
Selling and marketing expenses		(1,221,347)	(749,513)	(3,724,262)	(1,552,847)
General and administrative expenses		(1,413,779)	(850,783)	(4,000,277)	(1,699,580)
Impairment charge against financing and advances		(872,014)	(212,246)	(1,260,087)	(295,507)
TOTAL OPERATING EXPENSES		(3,507,140)	(1,812,542)	(8,984,626)	(3,547,934)
LOSS FROM OPERATIONS		(569,798)	(1,275,775)	(2,001,568)	(2,865,697)
Finance income	5	-	381,578	220,104	1,141,332
LOSS BEFORE ZAKAT		(569,798)	(894,197)	(1,781,464)	(1,724,365)
Zakat	9	(60,579)	(620,250)	641,439	(1,860,750)
NET LOSS FOR THE PERIOD		(630,377)	(1,514,447)	(1,140,025)	(3,585,115)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD					
Other comprehensive income for the period		-	-	-	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(630,377)	(1,514,447)	(1,140,025)	(3,585,115)
Basic and diluted loss per share (expressed in SR per share)	10	(0.06)	(0.15)	(0.11)	(0.36)

The attached notes 1 to 17 form an integral part of these interim condensed financial statements.

BAB RIZQ JAMEEL MICROFINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

For the nine-month period ended 30 September 2019

	<i>Share capital SR</i>	<i>Accumulated losses SR</i>	<i>Actuarial losses SR</i>	<i>Total SR</i>
Balance as at 1 January 2019 (audited)	100,000,000	(5,068,040)	(473,000)	94,458,960
Total comprehensive loss for the period	-	(1,140,025)	-	(1,140,025)
Balance as at 30 September 2019 (unaudited)	100,000,000	(6,208,065)	(473,000)	93,318,935
Balance as at 1 January 2018 (audited)	100,000,000	(535,436)	-	99,464,564
Total comprehensive loss for the period (<i>restated</i>) (<i>note 14</i>)	-	(3,585,115)	-	(3,585,115)
Balance as at 30 September 2018 (unaudited)	100,000,000	(4,120,551)	-	95,879,449

The attached notes 1 to 17 form an integral part of these unaudited interim condensed financial statements.

BAB RIZQ JAMEEL MICROFINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the nine-month period ended 30 September 2019

	<i>Notes</i>	<i>For the nine month period ended 30 September 2019 SR Unaudited</i>	<i>For the nine month period ended 30 September 2018 SR Unaudited</i>
OPERATING ACTIVITIES			
Net loss for the period before zakat		(1,781,464)	(1,724,365)
<i>Adjustments to reconcile net loss for the period to net cash flows:</i>			
Depreciation	3	150,339	30,059
Amortization		140,524	77,268
Impairment charge against financing and advances	4(a)	1,260,087	295,507
Finance income	5	(220,104)	(1,141,332)
Provision for employees' benefits liabilities		367,223	117,960
		(83,395)	(2,344,903)
<i>Changes in operating assets and liabilities:</i>			
Financing and advances, net		(50,937,378)	(26,999,825)
Prepayments and other receivables		(1,162,472)	(270,507)
Accrued expenses and other payables		1,032,194	1,341,578
Due to related parties		15,066,482	937,840
Net cash used in operations		(36,084,569)	(27,335,817)
Employees' benefits liabilities paid		(1,323,104)	-
Zakat paid		(109,076)	-
Net cash used in operating activities		(37,516,749)	(27,335,817)
INVESTING ACTIVITIES			
Addition to property and equipment		(102,167)	(28,050)
Addition to intangible assets		(238,033)	(133,078)
Finance income received		601,292	1,173,639
Murabaha deposits		45,000,000	(45,000,000)
Net cash from/(used in) investing activities		45,261,092	(43,987,489)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the period	5	7,744,343	(71,323,306)
		2,159,054	99,946,804
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	9,903,397	28,623,498
NON-CASH TRANSACTIONS			
Right-of-use asset	3	374,918	-
Employees' benefits liabilities transferred in	7	1,285,556	1,056,923
Employees' advances transferred from a related party	7	292,302	537,383
Employees' vacation accrual transferred from a related party	7	96,330	-

The attached notes 1 to 17 form an integral part of these unaudited interim condensed financial statements.

BAB RIZQ JAMEEL MICROFINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED)

At 30 September 2019

1 ORGANIZATION AND ACTIVITIES

Bab Rizq Jameel Microfinance Company (the “Company”) is a Saudi Closed Joint Stock Company, registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030294117, issued on 7 Rajab 1438H (corresponding to 4 April 2017). The Company is wholly owned by Saudi shareholders.

The Company’s head office is in Jeddah. The principal activity of the Company is to engage in microfinance activities in the Kingdom of Saudi Arabia.

On 14 Muharram 1439H (corresponding to 4 October 2017), the Company received the license from Saudi Arabian Monetary Authority (“SAMA”) to undertake Microfinance activities in the Kingdom of Saudi Arabia under license number 49/MU/201710 for five years from the date of issuance.

a) Share capital of the Company

As at 30 September 2019, 31 December 2018 and 1 January 2018, the share capital is owned as follows:

	<i>No. of shares of SR 10 each</i>	<i>30 September 2019 SR Unaudited</i>	<i>31 December 2018 SR Audited</i>	<i>1 January 2018 SR Audited</i>
Al Mumaizah United Commerce Company Limited	9,600,000	96,000,000	96,000,000	96,000,000
Al Mumaizah United Services Company Limited	100,000	1,000,000	1,000,000	1,000,000
Najid Al Raeda United Company Limited	100,000	1,000,000	1,000,000	1,000,000
Bader First United Company Limited	100,000	1,000,000	1,000,000	1,000,000
Taif First United Company Limited	100,000	1,000,000	1,000,000	1,000,000
	10,000,000	100,000,000	100,000,000	100,000,000

The Company is a subsidiary of Al Mumaizah United Commerce Company Limited (the “Parent Company”). The Ultimate Parent of the Company is United Instalment Sales Company Limited (“UIS” or “Ultimate Parent”). The Company, the Parent Company and the Ultimate Parent are wholly owned by Saudi shareholders.

b) Branches of the Company

As at 30 September 2019, the Company operates through Head Office and 5 registered branches (31 December 2018: 2 registered branches; 1 January 2018: Nil). The accompanying interim condensed financial statements include the assets, liabilities and results of these branches.

2 BASIS OF PREPARATION

a) Statement of compliance

The interim condensed financial statements of the Company as at and for the nine-month period ended 30 September 2019 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia (“KSA”).

The financial statements of the Company as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with IAS 34 and the International Financial Reporting Standards (“IFRS”) respectively, as modified by SAMA for the accounting of zakat and income tax.

On 17 July 2019, SAMA instructed the finance companies in the Kingdom of Saudi Arabia to account for the zakat in the statement of income. 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 and with the other standards and pronouncements that are issued by the Saudi Organisation for Certified Public Accountants (“SOCPA”).

**BAB RIZQ JAMEEL MICROFINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

2 BASIS OF PREPARATION (continued)

a) Statement of compliance (continued)

Accordingly, the Company changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 2(g) and the effects of this change are disclosed in note 14 to the interim condensed financial statements).

Further, the Company has adopted IFRS 16 "Leases" from 1 January 2019 and accounting policies for the new standard are disclosed in the note 2(g). In preparing these interim condensed financial statements, the significant judgments made by management are the same as those that applied to the financial statements for the year ended 31 December 2018, except for as disclosed in notes 2(e) and 2(f).

b) Basis of measurement

These interim condensed financial statements are prepared under the historical cost convention, except for employees' benefits liabilities, where actuarial present value calculations are used.

c) Functional and presentation currency

These interim condensed financial statements have been presented in Saudi Riyals, which is the functional and presentational currency of the Company.

d) 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. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period, are described below. The Company based its assumptions and estimates on parameters available when the interim condensed financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The accounting estimates and assumptions used in the preparation of these interim condensed financial statements (as detailed below) are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018, except for the changes in the accounting estimates as a result of adoption of IFRS 16 (as explained in note 2(f) below).

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the interim condensed financial statements have been prepared on a going concern basis.

Useful lives of property and equipment

The Company's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

**BAB RIZQ JAMEEL MICROFINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

2 BASIS OF PREPARATION (continued)

d) Significant accounting judgments, estimates and assumptions (continued)

Useful life of intangible assets

The Company's management determines the estimated useful lives of its intangible assets for calculating amortisation. This estimate is determined after considering the expected benefit obtained from the usage of the intangible assets. Management reviews the carrying value and useful lives annually and future amortisation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Actuarial valuation of employee benefits liabilities

The cost of the end-of-service and ex-gratia benefits ("employee benefits") under defined unfunded benefit plans is determined using an actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation and its long-term nature, a defined unfunded benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently, if required.

Classification of financial assets

Assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.

Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at the end of each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using the pre-zakat discount rate that reflects the current market assessments of time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

Impairment of financial assets

The measurement of impairment losses requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL model that are considered accounting judgements and estimates include:

- The Company's internal credit grading model, which assigns Probabilities of Default (PDs) to the individual pool of receivables
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels, and the effect on PDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model

**BAB RIZQ JAMEEL MICROFINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

2 BASIS OF PREPARATION (continued)

d) Significant accounting judgments, estimates and assumptions (continued)

Impairment of financial assets (continued)

At the reporting date, outstanding receivables under financing and advances was SR 102,933,637 (31 December 2018: SR 52,074,160), and the allowance for doubtful debts relating to financing and advances was SR 1,745,689 (31 December 2018: 563,503). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the interim condensed statement of comprehensive income of those periods.

e) Impact of changes in accounting policies due to adoption of new standards

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed financial statements of the Company.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

At the date of initial application, each existing lease contracts had a lease term of 12 months or less and did not contain a purchase option, thus, the Company used the recognition exemption for all existing lease contracts as at 1 January 2019. Accordingly, the adoption of IFRS 16 did not have any impact on equity as at 1 January 2019.

Nature of the effect of adoption of IFRS 16

The Company has lease contracts for various branches and before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased branch was not capitalised and the lease payments were recognised as rent expense in statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under "Prepayments and other receivables" and "Accrued expenses and other payables", respectively.

Upon adoption of IFRS 16, the Company elected to use the recognition exemptions for lease contracts that are considered short-term leases or low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

Subsequent to date of initial application, the Company has entered into a lease contract and the Company recognised right-of-use asset and lease liability. The right-of-use asset was recognised based on the amount equal to the lease liability, adjusted for any related prepayments. Lease liability was recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of lease contract. Related right-of-use asset and lease liability has been recorded under 'Property and equipment' (note 3) and 'Accrued expenses and other liabilities' (note 6), respectively.

**BAB RIZQ JAMEEL MICROFINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

2 BASIS OF PREPARATION (continued)

e) Impact of changes in accounting policies due to adoption of new standards (continued)

The Company applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of lease contract executed subsequent to date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The lease liability as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	<i>SR</i>
Operating lease commitments as at 31 December 2018	430,450
Weighted average incremental borrowing rate as at 1 January 2019	5%
Discounted operating lease commitments at 1 January 2019	430,450
Less:	
Commitments relating to short-term leases	(342,300)
Commitments relating to leases of low-value assets	(88,150)
Lease liability as at 1 January 2019	-

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments had no impact on the interim condensed financial statements of the Company.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in statement of income. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

**BAB RIZQ JAMEEL MICROFINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

2 BASIS OF PREPARATION (continued)

f) Impact of change in significant accounting judgments, estimates and assumptions

Significant judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

If the Company has the option, under its leases to lease the assets for additional terms, the Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Company does not have any renewal option for lease contracts that have lease term of 12 months or less.

Amounts recognised in the interim condensed statement of financial position and comprehensive income

Set out below, are the carrying amounts of the Company's right-of-use asset and lease liability and the movements during the period:

	Interim condensed statement of financial position	
	Property and equipment (Right-of-use asset) SR	Lease Liability SR
As at 1 January 2019 (note 2(e))	-	-
Addition of right-of-use asset and lease liability (note 2(e))	374,918	182,887
Depreciation expense (note (a) below)	(98,212)	-
Interest expense	-	4,512
As at 30 September 2019	276,706	187,399

a) The Company recognised depreciation expense relating to right-of-use asset under 'selling and marketing expenses'.

b) As at 30 September 2019 right-of-use asset is recorded as part of 'property and equipment' (note 3) amounting to SR 276,706 and the related lease liability has been classified under "accrued and other payables" amounting to SR 187,399.

g) Significant accounting policies

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 annual financial statements for the year ended 31 December 2018, except for the policies explained below. Based on the adoption of new standards and interpretation as explained in note 2(e) which are applicable from 1 January 2019 and change in accounting treatment relating to zakat which is applied retrospectively, the following accounting policies are replacing / amending or adding to the corresponding accounting policies set out in audited financial statements for the year ended 31 December 2018.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

2 BASIS OF PREPARATION (continued)

g) Significant accounting policies (continued)

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease Liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Change in the accounting for zakat

As mentioned in note 2(a), the basis of preparation had been changed for the prior period ended 30 June 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat charge was recognized in the statement of changes in shareholders' equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat shall be recognized in the statement of income. The Company has accounted for this change in the accounting for zakat retrospectively and the effects of the above change are disclosed in note 14 to the interim condensed financial statements. The change has had no impact on the interim condensed statement of changes in shareholders' equity and interim condensed statement of cash flows for the period ended 30 September 2018.

Zakat

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat expense is charged to the statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

3 PROPERTY AND EQUIPMENT

	<i>Lease hold improvements</i> SR	<i>Right of use asset (see note 2(e))</i> SR	<i>Office equipment</i> SR	<i>Computers</i> SR	<i>Capital work in progress</i> SR	Total 30 September 2019 SR <i>Unaudited</i>	<i>Total 31 December 2018</i> SR <i>Audited</i>	<i>Total 1 January 2018</i> SR <i>Audited</i>
Cost:								
At the beginning of the period/year	138,216	-	29,344	8,678	-	176,238	115,642	-
Additions during the period/year	15,810	374,918	13,282	-	73,075	477,085	60,596	115,642
Transfer during the period	73,075	-	-	-	(73,075)	-	-	-
At the end of the period/year	227,101	374,918	42,626	8,678	-	653,323	176,238	115,642
Accumulated depreciation:								
At the beginning of the period/year	50,688	-	14,980	2,634	-	68,302	25,201	-
Charge for the period/year	45,675	98,212	4,290	2,162	-	150,339	43,101	25,201
At the end of the period/year	96,363	98,212	19,270	4,796	-	218,641	68,302	25,201
Net book value:								
At 30 September 2019 (Unaudited)	130,738	276,706	23,356	3,882	-	434,682		
At 31 December 2018 (Audited)	87,528	-	14,364	6,044	-		107,936	
At 1 January 2018 (Audited)	74,464	-	11,798	4,179	-			90,441

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

4 FINANCING AND ADVANCES, NET

	<i>30 September 2019 SR Unaudited</i>	<i>31 December 2018 SR Audited</i>	<i>1 January 2018 SR Audited</i>
Gross financing and advances	120,288,625	59,950,395	-
Less: unearned finance income	(17,354,988)	(7,876,235)	-
	102,933,637	52,074,160	-
Less: allowance for doubtful debts (note a)	(1,745,689)	(563,503)	-
Financing and advances, net	101,187,948	51,510,657	-

30 September 2019 (Unaudited)

	<i>Gross Financing and advances SR</i>	<i>Unearned finance income SR</i>	<i>Allowance for doubtful debts SR</i>	<i>Financing and advances, net SR</i>
Current portion	62,180,229	(9,671,093)	(1,745,689)	50,763,447
Non-current portion	58,108,396	(7,683,895)	-	50,424,501
Total	120,288,625	(17,354,988)	(1,745,689)	101,187,948

31 December 2018 (Audited)

	<i>Gross Financing and advances SR</i>	<i>Unearned finance income SR</i>	<i>Allowance for doubtful debts SR</i>	<i>Financing and advances, net SR</i>
Current portion	37,145,836	(4,897,011)	(563,503)	31,685,322
Non-current portion	22,804,559	(2,979,224)	-	19,825,335
Total	59,950,395	(7,876,235)	(563,503)	51,510,657

a) The movement in allowance for doubtful debts is given below:

	<i>For the nine month period ended 30 September 2019 SR Unaudited</i>	<i>For the nine month period ended 30 September 2018 SR Unaudited</i>
At the beginning of the period	563,503	-
Provided during the period	1,260,087	295,507
Amounts written off during the period	(77,901)	-
	1,745,689	295,507

b) As at 30 September 2019, gross financing and advances which are past due amounted to SR 448,558 (31 December 2018: Nil, 1 January 2018: Nil). The not yet due portion of above overdue financing and advances as of 30 September 2019 amounts to SR 3,847,330 (31 December 2018: SR Nil, 1 January 2018: Nil).

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

4 FINANCING AND ADVANCES, NET (continued)

c) The ageing of financing and advances which are past due is as follows:

	<i>30 September 2019 SR Unaudited</i>	<i>31 December 2018 SR Audited</i>	<i>1 January 2018 SR Audited</i>
1 – 3 months	424,019	-	-
4 – 6 months	24,539	-	-
	<u>448,558</u>	<u>-</u>	<u>-</u>

5 CASH AND BANK BALANCES

	<i>30 September 2019 SR Unaudited</i>	<i>31 December 2018 SR Audited</i>	<i>1 January 2018 SR Audited</i>
Cash and cash equivalents	9,903,397	2,159,054	99,946,804
Murabaha deposits (original maturity of more than 3 months)	-	45,381,188	-
	<u>9,903,397</u>	<u>47,540,242</u>	<u>99,946,804</u>

During the period, the Company earned SR 220,104 (30 September 2018: SR 1,141,332) on murabaha deposits at the rate of return ranging from 2.85% to 3.05% (30 September 2018: 1.35% to 2.85%).

6 ACCRUED EXPENSES AND OTHER PAYABLES

	<i>30 September 2019 SR Unaudited</i>	<i>31 December 2018 SR Audited</i>	<i>1 January 2018 SR Audited</i>
Advances from customers	1,125,538	27,056	70,000
Accrued expenses	998,445	967,761	-
Lease liability (note 2(e))	187,399	-	-
Other payables	39,396	44,550	62,573
	<u>2,350,778</u>	<u>1,039,367</u>	<u>132,573</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

7 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

i) Following are the details of related party transactions during the period:

Related party	Nature of transactions	<i>For the three</i>	<i>For the three</i>	<i>For the nine</i>	<i>For the nine</i>
		<i>month period</i>	<i>month period</i>	<i>month period</i>	<i>month period</i>
		<i>ended 30</i>	<i>ended 30</i>	<i>ended 30</i>	<i>ended 30</i>
		<i>September</i>	<i>September</i>	<i>September</i>	<i>September</i>
		<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
		<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
		<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
Parent Company	Payments made on behalf of the Company	-	469,313	-	1,095,870
	Payments to the Company (note (a) below)	14,400,000	-	14,400,000	-
Affiliates	Payments made on behalf of the Company	98,336	801,886	223,451	859,792
	Expenses recharged for employees' costs	427,094	218,966	770,570	875,867
	Transfer of employees' benefits liabilities	11,193	1,056,923	1,285,556	1,056,923
	Transfer of employees accrued holiday pay	10,330	-	96,330	-
	Transfer of employees' advances	12,235	537,383	292,302	537,383
	Expenses recharged for marketing services	7,530	-	126,790	-
	Collections made on behalf of the Company	44,687	101,010	127,456	101,010
	Shared services (excluding value added tax 'VAT')	125,000	125,000	375,000	375,000
	Charges for customer evaluations prior financing and advances (excluding VAT)	49,535	35,568	155,727	70,308
	Purchases	68,775	-	722,543	-

a) During the period ended 30 September 2019, the Parent Company transferred SR 14.4 million in tranches, to support the Company to achieve its operational objectives. The amount is free of charge, unsecured, and expected to be repaid by December 2019.

ii) Due to related parties comprise the following:

	<i>30 September</i>	<i>31 December</i>	<i>1 January</i>
	<i>2019</i>	<i>2018</i>	<i>2018</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>
	<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>
Al Mumaizah United Commerce Company Limited (the "Parent Company")	14,400,000	-	216,425
Bab Rizq Jameel Service Company Limited	1,212,372	1,423,939	802,179
Abdul Latif Jameel United Finance Company (A Saudi Closed Joint Stock Company)	375,000	580,747	-
Abdul Latif Jameel Company for Information and Services Limited	21,529	27,317	-
	16,008,901	2,032,003	1,018,604

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

7 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

iii) The total amount of compensation to key management personnel during the period is as follows:

	<i>For the three month period ended 30 September 2019 SR Unaudited</i>	<i>For the three month period ended 30 September 2018 SR Unaudited</i>	<i>For the nine month period ended 30 September 2019 SR Unaudited</i>	<i>For the nine month period ended 30 September 2018 SR Unaudited</i>
Remuneration	244,158	42,776	803,471	42,776
Short-term employee benefits	339,000	175,000	555,000	175,000
Employee benefits liabilities	35,190	2,588	191,817	2,588
	618,348	220,364	1,550,288	220,364

The key management personnel include members of the Board and Board related committees (Risk and Audit Committee etc.)

Until 31 March 2018, the employee's related costs incurred by the affiliate have been absorbed by the affiliate and no such expenses have been re-charged to the Company. With effect from 1 April 2018, all employees' related costs incurred by the affiliate, if any, have been allocated to the Company based on mutual understanding. Further, all support activities to run the affairs of the Company were being carried out by the employees of Bab Rizq Jameel Service Company Limited, an affiliate, since date of incorporation until 31 July 2018.

8 REVENUES

	<i>For the three month period ended 30 September 2019 SR Unaudited</i>	<i>For the three month period ended 30 September 2018 SR Unaudited</i>	<i>For the nine month period ended 30 September 2019 SR Unaudited</i>	<i>For the nine month period ended 30 September 2018 SR Unaudited</i>
Income from financing and advances	2,762,467	415,113	6,567,123	436,380
Contract fee income	222,051	157,222	569,303	316,165
	2,984,518	572,335	7,136,426	752,545

9 ZAKAT

The movement in zakat payable was as follows:

	<i>30 September 2019 SR Unaudited</i>	<i>31 December 2018 SR Audited</i>
Balance at the beginning of the period /year	894,533	-
Charge for the current period/year	144,018	894,533
Prior year adjustment	(785,457)	-
Paid during the period /year	(109,076)	-
	144,018	894,533

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

9 ZAKAT (continued)

Status of zakat assessments

The Company has submitted zakat declarations for the period from 4 April 2017 to 31 December 2017 and for the year ended 31 December 2018, which are being reviewed by General authority of Zakat and Tax (GAZT). The Company has a 'No Objection Letter' valid to 30 April 2020.

10 LOSS PER SHARE

Basic loss per share amounts are calculated by dividing the net loss for the period by the weighted average number of ordinary shares outstanding during the period. The calculation of diluted loss per share is not applicable to the Company. The basic and diluted loss per share are calculated as follows:

	<i>For the three month period ended 30 September 2019 SR Unaudited</i>	<i>For the three month period ended 30 September 2018 SR Unaudited Restated (Note 14)</i>	<i>For the nine month period ended 30 September 2019 SR Unaudited</i>	<i>For the nine month period ended 30 September 2018 SR Unaudited Restated (Note 14)</i>
Net loss for the period	<u>(630,377)</u>	<u>(1,514,447)</u>	<u>(1,140,025)</u>	<u>(3,585,115)</u>
Weighted average number of ordinary shares	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
Basic and diluted loss per share (SR per share)	<u>(0.06)</u>	<u>(0.15)</u>	<u>(0.11)</u>	<u>(0.36)</u>

11 SEGMENT REPORTING

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

The Company carries out its activities entirely in the Kingdom of Saudi Arabia and is only engaged in microfinance activities as a result, the operations of the Company have been considered as one segment.

12 FINANCIAL RISK MANAGEMENT

Credit Risk

a) *Credit quality analysis*

The following table sets out information about the credit quality of financial assets measured at amortized cost as at 30 September 2019. Unless specifically indicated, for financial assets, the amounts in the table represent net carrying amounts.

1. Gross carrying financing and advances

	<i>12 month ECL SR</i>	<i>Life time ECL not credit impaired SR</i>	<i>Lifetime ECL credit impaired SR</i>	<i>Total SR</i>
30 September 2019 (Unaudited)	<u>101,556,894</u>	<u>1,186,398</u>	<u>190,345</u>	<u>102,933,637</u>
31 December 2018 (Audited)	<u>52,074,160</u>	<u>-</u>	<u>-</u>	<u>52,074,160</u>
1 January 2018 (Audited)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

12 FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

a) *Credit quality analysis (continued)*

2. *Allowance for ECL*

	<i>12 month ECL SR</i>	<i>Life time ECL not credit impaired SR</i>	<i>Lifetime ECL credit impaired SR</i>	<i>Total SR</i>
30 September 2019 (Unaudited)	1,647,195	13,590	84,904	1,745,689
31 December 2018 (Audited)	563,503	-	-	563,503
1 January 2018 (Audited)	-	-	-	-

b) *Amounts arising from ECL – Significant increase in credit risk*

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure based on approved stages of criteria.

Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

a) *Generating the term structure of PD*

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information obtained from external credit reference agencies is also used.

The Company employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors include loan growth, oil prices, GDP annual growth rate and consumer spending etc. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (discussion on incorporation of forward-looking information). The Company then uses these forecasts to adjust its estimates of PDs.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

12 FINANCIAL RISK MANAGEMENT (continued)

Credit risk grades (continued)

b) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition, which is determined under basis of Company's staging criteria.

Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

c) Modified financial assets

The contractual terms of a financing and advances may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing and advances whose terms have been modified may be derecognised and the renegotiated financing and advances recognised as a new financing and advances at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly is completed on the basis of the approved staging criteria.

The Company renegotiates financing and advances to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Company's policy, financing and advances forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

d) Definition of 'Default'

A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The obligor is past due for 90 days or more on any material credit obligations to the Company including principal instalments, finance cost payments and fees.
- The Company considers that the obligor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any).

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

12 FINANCIAL RISK MANAGEMENT (continued)

Credit risk grades (continued)

e) Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Company economics department experts and consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private sector and academic forecasters.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

f) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on models and assessed using tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the recoveries and costs incurred in the process to arrive at the estimates.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

The Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a financing and advances commitment or guarantee.

Capital management

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure. The Company manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in objectives, policies or processes for managing capital during the nine-month period ended 30 September 2019.

**BAB RIZQ JAMEEL MICROFINANCE COMPANY
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

12 FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

The Company monitors aggregate amount of micro financing offered by the Company on the basis of the regulatory requirements of SAMA that requires Finance Companies engaged in financing other than real estate, to maintain aggregate financing to capital ratio of three times.

	<i>30 September 2019 SR Unaudited</i>	<i>31 December 2018 SR Audited</i>
Aggregate financing to capital ratio (<i>Financing and advances divided by total shareholders' equity</i>)	1.08 times	0.55 times

13 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial assets consist of cash and bank balances, financing and advances, employees' receivables, and other receivables. Its financial liabilities consist of due to related parties, and other liabilities.

The fair values of the financial instruments are not materially different from their carrying amounts except for financing and advances.

The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

14 RESTATEMENT/RECLASSIFICATION OF PRIOR PERIOD FIGURES

As set out in note 2(a) and 2(g), the Company has changed its accounting treatment to charge zakat for the period to the interim condensed statement of comprehensive income. Previously, zakat was charged to the statement of changes in shareholders' equity. The change in the accounting treatment has the following impacts on the line items of the interim condensed statement of comprehensive income:

	<i>For the three- months period ended 30 September 2018 SR Unaudited</i>	<i>For the nine- months period ended 30 September 2018 SR Unaudited</i>
<i>Interim condensed statement of comprehensive income</i>		
Net loss for the period		
Net loss, as previously reported	(894,197)	(1,724,365)
Adjustment relating to zakat charge	(620,250)	(1,860,750)
Net loss, as restated	<u>(1,514,447)</u>	<u>(3,585,115)</u>
Loss per share		
Basic and diluted loss per share, as previously reported	(0.09)	(0.17)
Adjustment relating to zakat charge	(0.06)	(0.19)
Basic and diluted loss per share, as restated	<u>(0.15)</u>	<u>(0.36)</u>

The change has had no impact on the statement of cash flows and statement of changes in shareholders' equity for the nine-month period ended 30 September 2018.

**BAB RIZQ JAMEEL MICROFINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT (UNAUDITED) (CONTINUED)

At 30 September 2019

15 RESULTS OF INTERIM PERIOD

The interim condensed financial statements may not be considered indicative of the expected results for the full year.

16 COMPARATIVE FIGURES

Certain prior period amounts have been reclassified to conform to the presentation in the current period.

17 BOARD OF DIRECTORS' APPROVAL

These interim condensed financial statements were approved by the Board of Directors on 24 October 2019 (corresponding to 25 Safar 1441H).