DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2020
together with the
Independent auditor's report

KPMG Al Fozan & Partners
Certified Public Accountants
Riyadh Front, Airport road
P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Telephone +966 11 874 8500
Fax +966 11 874 8600
Internet www.kpmg.com/sa

Licence No. 46/11/323 issued 11/3/1992

Independent auditor's report

To the shareholders of Deutsche Gulf Finance

Opinion

We have audited the financial statements of Deutsche Gulf Finance ("the Company"), which comprise the statement of financial position as at 31 December 2020, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the Regulations for Companies, and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, the Board of Directors, are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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KPMG

Independent auditor's report

To the shareholders of Deutsche Gulf Finance (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of the Company.

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No: 371

16 Rajab 1442H
Corresponding to: 28 February 2021

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(Saudi Riyals)

	Note	**2020**	2019
ASSETS			
Cash and cash equivalents	*8*	**9,404,961**	36,026,007
Other assets	*9*	**67,758,369**	47,463,935
Due from an affiliated company	*16*	**4,105,769**	4,049,702
Ijara receivables, net	*10*	**2,105,762,358**	1,560,142,364
Servicing rights under agency arrangements	*11*	**15,882,475**	2,957,932
Financial asset held at fair value through other comprehensive income equity instrument		**892,850**	892,850
Deferred tax asset	*7*	**3,753,049**	3,347,230
Property, equipment and right-of-use assets	*13*	**31,958,581**	30,925,350
Intangible assets	*12*	**687,490**	334,331
TOTAL ASSETS		**2,240,205,902**	1,686,139,701
LIABILITIES AND EQUITY			
LIABILITIES			
Financing facilities	*14*	**1,457,109,849**	968,850,391
Due to an affiliated company	*16*	**514,638**	469,638
Provision for zakat and income tax	*7*	**13,273,098**	11,127,264
Accounts and other payables		**900,673**	1,428,233
Dividend payable	*23*	**10,763,638**	--
Accrued expenses and other liabilities	*15*	**69,446,400**	47,841,510
Employees' end of service benefits		**4,613,064**	3,610,914
TOTAL LIABILITIES		**1,556,621,360**	1,033,327,950
EQUITY			
Share capital	*17*	**575,000,000**	575,000,000
Statutory reserve	*18*	**14,172,157**	8,219,878
Retained earnings		**94,412,385**	69,591,873
TOTAL EQUITY		**683,584,542**	652,811,751
TOTAL LIABILITIES AND EQUITY		**2,240,205,902**	1,686,139,701

The attached notes 1 to 25 form an integral part of these financial statements.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020
(Saudi Riyals)

	Note	**2020**	2019
INCOME			
Income from Ijara receivables		**151,798,905**	146,788,201
Realised gain on sale, settlement or early termination of Ijara receivables		**6,875,874**	7,765,698
Servicing fee		**18,969,563**	6,073,099
Other income		**278,472**	195,457
TOTAL INCOME		**177,922,814**	160,822,455
EXPENSES			
Financial charges		**21,506,590**	47,823,149
Employees' benefits and compensation	*5*	**42,950,262**	35,104,169
Expected credit losses on Ijara receivables	*10*	**17,290,728**	6,274,615
Depreciation	*13*	**1,430,997**	896,405
Amortisation	*12*	**288,832**	214,359
Other expenses	*6*	**26,573,524**	19,261,462
TOTAL EXPENSES		**110,040,933**	109,574,159
NET INCOME FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		**67,881,881**	51,248,296
Zakat and income tax	*7*	**8,359,090**	5,348,307
NET INCOME FOR THE YEAR AFTER ZAKAT AND INCOME TAX		**59,522,791**	45,899,989
Other comprehensive income		**--**	--
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**59,522,791**	45,899,989

The attached notes 1 to 25 form an integral part of these financial statements.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020
(Saudi Riyals)

	Share capital	Statutory reserve	Retained earnings	Total
Balance as at 1 January 2020	**575,000,000**	**8,219,878**	**69,591,873**	**652,811,751**
Net income for the year	--	--	**59,522,791**	**59,522,791**
Other comprehensive income	--	--	--	--
Dividend (Note 23)	--	--	**(28,750,000)**	**(28,750,000)**
Transfer to statutory reserve	--	**5,952,279**	**(5,952,279)**	--
Balance as at 31 December 2020	**575,000,000**	**14,172,157**	**94,412,385**	**683,584,542**
Balance as at 1 January 2019	575,000,000	3,629,879	28,281,883	606,911,762
Net income for the year	--	--	45,899,989	45,899,989
Other comprehensive income	--	--	--	--
Transfer to statutory reserve	--	4,589,999	(4,589,999)	--
Balance as at 31 December 2019	575,000,000	8,219,878	69,591,873	652,811,751

The attached notes 1 to 25 form an integral part of these financial statements.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(Saudi Riyals)

	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year before zakat and income tax		**67,881,881**	51,248,296
Adjustments to reconcile net income before zakat and income tax to net cash used in operating activities:			
Amortisation	*12*	**288,832**	214,359
Depreciation	*13*	**1,430,997**	896,405
Employees' end of service benefits charge		**1,446,797**	1,110,224
Expected credit losses on Ijara receivables	*10*	**17,290,728**	6,274,615
Gain on disposal of property & equipment		**--**	(11,476)
Special commission expense on lease liabilities		**83,228**	111,117
Modification loss on Ijara receivables		**7,823,208**	--
Modification gain on financing facilities		**(8,889,122)**	--
		87,356,549	59,843,540
Net (increase) / decrease in operating assets			
Ijara receivable		**(570,733,930)**	(176,474,655)
Other assets		**(20,294,434)**	(12,954,268)
Servicing rights under agency arrangements		**(12,924,543)**	(865,660)
Due from an affiliated company		**(56,067)**	951,178
Net increase / (decrease) in operating liabilities			
Accounts and other payables		**(527,562)**	(672,419)
Accrued expenses and other liabilities		**22,028,819**	4,036,501
Due to an affiliated company		**45,000**	45,000
		(495,106,168)	(126,090,783)
Employees' end of service benefits paid		**(444,647)**	(114,881)
Zakat and income tax paid	*7*	**(6,619,075)**	(8,447,098)
Net cash used in operating activities		**(502,169,890)**	(134,652,762)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	*13*	**(2,464,228)**	(6,784,942)
Acquisition of intangible assets	*12*	**(641,991)**	(45,600)
Proceeds from sale of property and equipment		**--**	11,476
Net cash used in investing activities		**(3,106,219)**	(6,819,066)
CASH FLOWS FROM FINANCING ACTIVITY			
Proceeds from financing facilities	*14*	**4,096,918,017**	6,808,419,318
Repayment of financing facilities	*14*	**(3,599,769,437)**	(6,688,024,762)
Dividend paid	*23*	**(17,986,362)**	--
Payment of principal portion of lease liabilities		**(507,155)**	(512,135)
Net cash from financing activity		**478,655,063**	119,882,421
Net decrease in cash and cash equivalents		**(26,621,046)**	(21,589,407)
Cash and cash equivalents at beginning of the year		**36,026,007**	57,615,414
Cash and cash equivalents at end of the year	*8*	**9,404,961**	36,026,007
Special commission received during the year		**128,485,380**	139,872,762
Special commission paid during the year		**21,279,659**	40,923,425

The attached notes 1 to 25 form an integral part of these financial statements.

1. CORPORATE INFORMATION

Deutsche Gulf Finance ("the Company") is a Saudi closed joint stock company established pursuant to a ministerial resolution numbered 3/Q dated 6 Muharram 1431H (corresponding to 23 December 2009) and registered in the Kingdom of Saudi Arabia under commercial registration number 1010280521 dated 9 Safar 1431H (corresponding to 25 January 2010). The Company has a branch in Jeddah registered under commercial registration number 4030245681 dated 19 Jumada Thani 1434H (corresponding to 29 April 2013) and a branch in Al Khobar registered under commercial registration number 2051052773 dated 19 Jumada Thani 1434H (corresponding to 29 April 2013). The registered office of the Company is located at Al Imam Saud Ibn Faysal Road – Al Sahafah District, P.O. Box 75370, Riyadh 13321, Kingdom of Saudi Arabia.

The Company is engaged in real estate financing that includes acquisition, purchase of lands and buildings for the purposes of financing facilities (except in Makkah and Madinah), in accordance with license number 2030114773 dated 2 Dhul- Qadah 1430H (corresponding to 21 October 2009) as obtained from the Saudi Arabian General Investment Authority.

The Saudi Central Bank ("SAMA") issued the Implementing Regulations of The Law on Supervision of Finance Companies which was published on 24 February 2013 following the Financial Lease Law and the Law on Supervision of Finance Companies ("the laws") published on 27 August 2012. The Company was issued a license (number 17/A SH/201405) from SAMA on 20 May 2014 (corresponding to 21 Rajab 1435H).

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared:

(a) in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA"); and

(b) in compliance with the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

Basis of measurement

The financial statements are prepared under the historical cost convention except for investment which is measured at fair value through other comprehensive income ("FVOCI").

Functional and presentational currency

The financial statements are presented in Saudi Riyals, which is the functional and presentation currency of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below.

Change in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual audited financial statements for the year ended 31 December 2019. Based on the adoption of new standard and in consideration of current economic environment, the following accounting policies are applicable effective 1 January 2020 replacing, amending or adding to the corresponding accounting policies set out in 2019 annual audited financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in accounting policies (continued)

New standards, amendments and interpretations adopted in preparation of these financial statements

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after 1 January 2020. The management has assessed that the amendments have no significant impact on the Company's financial statements.

- Amendments to IFRS 3: Definition of a Business;
- Amendments to IAS 1 and IAS 8: Definition of Material;
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform – Phase 1

New standards and amendments issued but not yet effective and not early adopted

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Company's accounting year beginning on or after 1 January 2021 are listed below. The Company has opted not to early adopt these pronouncements and they do not have a significant impact on the financial statements.

- COVID-19 – Related Rent Concessions (Amendments to IFRS 16);
- IFRS 17 – Insurance contracts, applicable for the period beginning on or after January 1, 2023;
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current, applicable for the period beginning on or after January,1, 2022;
- Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37);
- Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16); and
- Reference to Conceptual Framework (Amendments to IFRS 3)

The management of the Company anticipates that the application of these new standards and amendments in the future will not have significant impact on the amounts reported.

Cash and cash equivalents
Cash and cash equivalents consist of cash in hand, bank balances in current accounts, short-term deposits with original maturity of 90 days or less from the date of investment and cash on hand.

Intangible assets
Intangible assets acquired by the Company are measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful life of software is three years.

Property and equipment
Property and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Company and cost of the asset can be reliably measured. Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. Expenditure for repair and maintenance are charged to the statement of profit or loss and other comprehensive income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

The carrying amount of an item of property and equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in the statement of profit or loss and other comprehensive income when the item is de-recognised.

The estimated useful lives of the assets for calculation of depreciation are as follows:

Leasehold improvements	Over the shorter of the useful life or 5 to 10 years
Building	35 years
Equipment and motor vehicles	3 years
Furniture and fixtures	5 years

Capital work in progress

Capital work in progress includes building under improvements for which it is probable that future economic benefits will flow to the Company and the cost can be measured reliably. Typically, these are items that have not yet been brought to the location and/or condition necessary for it to be capable of operating in the manner intended by management.

Ijara receivables

*I*jara receivables represent assets transferred under finance lease comprising Islamic lease agreement and the present value of the lease payments is recognised as a receivable and disclosed under "Ijara receivables". The difference between the gross receivables and the present value of the receivables is recognised as unearned Ijara income. Ijara income is recognised over the term of the Ijara using the net investment method, which reflects a constant periodic rate of return.

Modifications of Ijara receivables

If the terms of Ijara receivables are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original Ijara receivables are deemed to have expired. In this case, the original Ijara receivables is derecognized and a new Ijara receivables is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the Ijara receivables. In this case, the Company recalculates the gross carrying amount of the Ijara receivables and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with ECL on Ijara receivables. In other cases, it is presented as profit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Ijara mawsofa fi athemmah

Ijara mawsofa fi athemmah (forward lease) is a method of Islamic leasing where the lessor accepts rent prior to the delivery of the property. The gross amounts due under originated Ijara mawsofa fi athemmah includes the total of future lease payments on Ijara mawsofa fi athemmah (lease contracts receivable), plus estimated residual amounts receivable. The difference between the lease contracts receivable and the cost of the leased assets is recorded as unearned Ijara mawsofa fi athemmah income and for presentation purposes, is deducted from the gross amounts due under Ijara mawsofa fi athemmah. Ijara mawsofa fi athemmah income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Expected credit losses ("ECL") on Ijara receivable

The Company recognizes loss allowance for ECL on Ijara receivables. The Company measures loss allowance at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL:

- Ijara receivables that are determined to have low credit risk at the reporting date; and
- Ijara receivables on which credit risk has not increased significantly since their initial recognition

The Company considers Ijara receivables to have low credit risk when their exposure with days past due ("DPD") is 30 days or less. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Significant increase in credit risk

To determine 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, expert credit assessment and forward-looking information.

The Company compares the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date. The Company assess for significant increase in credit risk ("SICR") at a facility level and the main indicators for SICR are as follows:

- Real estate financing facilities with principal and commission which are past due by more than 30 days;
- restructured facilities due to credit risk over the last 12 months;
- facilities in watch-list;
- high risk events/attributes of customers (bankruptcy or other similar events); or
- any counter party identified by the senior management / board as having SICR and enhanced monitoring is required.

The Company considers exposures with 30+ DPD as having Significant Increase in Credit Risk and will accordingly be taken to Stage 2. The Company classifies its Ijara receivables into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: For Ijara receivables where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Company recognises an allowance based on the 12-month ECL and income is calculated on the gross carrying amount of asset (i.e. without deduction of credit allowance. All accounts at origination would be classified as Stage 1 only exceptions are Purchased or Originated Credit Impaired ("POCI") assets (if any).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ECL on Ijara receivable (continued)

Stage 2: For Ijara receivables where there has been a significant increase in credit risk since initial recognition but are not credit-impaired (i.e. there is no objective evidence of impairment), the Company recognises an allowance for the lifetime ECL. With respect to portfolio held by the Company, all the exposures are moved to stage 2 where the customer is 30+ DPD (principal or commission payments) as of reporting date.

In addition, the account tagged as watch list / restructured as of reporting date, including being tagged as watch list / restructured in last 12 months, are classified in stage 2. Further, any counterparty identified by senior management / board as having SICR and for which enhanced monitoring is required, will also be subject to stage 2 ECL calculation.

Stage 3: For credit-impaired (i.e. there is objective evidence of impairment at reporting date) financial instruments, the Company recognises the lifetime ECL. Default identification process i.e. 90+ DPD more (obligors already defaulted) is used as stage 3.

Credit risk Days Past Due (DPD) Buckets

The Company allocates each exposure to a credit risk DPD buckets using qualitative and quantitative factors that are indicative of risk of default. Credit risk DPD buckets are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each exposure is allocated to a credit risk DPD bucket at initial recognition based on available information about the counterparty. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk DPD buckets.

Definition of default

The Company uses 90+ DPD on principal and commission repayments as a hard stop default definition along with certain other unlikeliness-to-pay (UTP) indicators defined in risk management policies.

Credit-impaired Ijara receivables

At each reporting date, the Company assess whether Ijara receivables are credit-impaired. A Ijara receivables is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the Ijara receivables have occurred. Evidence that a Ijara receivables is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a Ijara by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Ijara that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Incorporation of forward-looking information

The Company incorporates forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs. The Company considers forward-looking information such as macroeconomic factors (e.g. GDP growth, net debt and net lending) and economic forecasts. Given the nature of Company's exposure and availability of historical statistical information, the Company derives Point-in-Time (PIT) PD using Through the Cycle (TTC) PD calculated through Loss rate estimation method. The Company uses the Vasicek model to link the TTC PDs with forward looking economic factors to derive PIT PD estimate for each DPD bucket.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ECL on Ijara receivable (continued)

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

i. Probability of default (PD);
ii. Loss given default (LGD); and
iii. Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models using 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 statistical models (loss rate estimation method), and assessed to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between DPD buckets, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

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 structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the Ijara receivables. For real estate financing secured by property, LTV ratios are a key parameter in determining LGD.

LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated the LGD based on the historical exposure data of the defaulted customers.

Where the exposure is 100% or more collateralized (i.e. the value of the collateral after haircut is equal to or greater than the exposure), the Company imposes a LGD floor (recovery cap) for real estate financing.

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 amortization. The EAD of an Ijara receivables is its gross carrying amount.

Write-off
Ijara receivables is written off (either partially or in full) when there is no realistic prospect of recovery. However, Ijara receivables that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to ECL on Ijara receivables.

Presentation of allowance for ECL in the statement of financial position
Impairment allowances for ECL of Ijara receivables are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Property valuation
To mitigate its credit risks on Ijara receivables, the Company seeks to use property, where possible. The property comes in various forms of real estate. Property, unless repossessed, is not recorded on the Company statement of financial position. However, the fair value of property affects the estimation of ECL against Ijara receivables.

Real estate property is valued by independent valuers appointed by the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ECL on Ijara receivable (continued)

Property repossessed
The Company policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value less cost to sell for non-financial assets at the repossession date in, line with the Company policy.

Financial instruments

All financial assets and financial liabilities are initially recognized on the trade date i.e. the date which the Company becomes party to the contractual provisions of the instrument. Financial assets comprise of cash and cash equivalents, due from an affiliated company and other receivables. Financial liabilities comprise of financing facilities, due to an affiliated company, accounts and other payables and other liabilities.

Classification of financial assets
On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or fair value through profit or loss ("FVTPL").

Financial Asset at amortised cost
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Financial Asset at fair value through other comprehensive income
Financial assets at FVOCI comprise of investment in equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss.

These investments are initially recognised at fair value plus direct attributable transaction cost and subsequently measured at fair value. Gains and losses arising from change in fair value are included in other comprehensive income.

Upon disposal of the equity investments, any balance within the other reserve for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss. Dividends on such investments are recognised in statement of profit or loss, unless dividends represent a recovery of cost.

Financial asset at fair value through profit or loss
Financial assets at fair value through profit or loss comprise of investments in equity securities that do not qualify for measurement at either amortized cost or at FVOCI.

Financial instruments held at FVTPL are initially recognized at fair value, with transaction cost recognized in the statement of profit or loss as incurred. Subsequently, they are measured at fair value and any gains and losses are recognized in statement of profit or loss as they arise. No financial assets are classified as FVTPL in these financial statements.

Business model assessment
The Company assess the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

Classification of financial liabilities

The Company classifies its financial liabilities, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium to issue the funds, and other cost that are integral part of the effective profit rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

De recognition

Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. Ijara originated by the Company and subsequently disposed-off to third parties are derecognised when the rights to receive the contractual cash flows and substantially all of the risks and rewards of ownership of the financial asset are transferred.

An intangible asset is recognised and classified as servicing rights under agency agreements in respect of any obligation to service the transferred lease whereby the servicing fee adequately covers the related costs. These assets are accounted for in accordance with accounting policy on intangible assets. The resulting gain or loss on the transaction is recognized in the statement of profit and loss and other comprehensive income under income from agency arrangements.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability
Financial liabilities are classified as measured at amortised cost using the effective yield method. Finance expense and foreign exchange gains and losses are recognised in profit or loss and other comprehensive income. Any gain or loss on derecognition is also recognised in profit or loss and other comprehensive income.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair values of financial instruments (continued)

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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 categorization (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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Statutory reserve

As required by Saudi Arabian Regulations for Companies and the Company's By-laws, 10% of the income for the year (after zakat and income tax and after deducting losses brought forward) should be transferred to the statutory reserve. This reserve is not available for distribution. As per the By-laws, the Company may resolve to discontinue such transfers when the reserve totals 30% of the capital. The statutory reserve can be transferred to offset the accumulated losses with the approval from the shareholders of the Company.

Accrued expenses and other payables

Liabilities are recognised for amounts to be paid in future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Zakat and income tax

The Company's Saudi shareholders are subject to zakat and non-Saudi shareholders are subject to income tax in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT") as applicable in the Kingdom of Saudi Arabia.

Value Added Tax ("VAT")

The Company collects VAT from its customers for qualifying services provided, and make VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the General Authority of Zakat and Tax ("GAZT") representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Company and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available, and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognized.

Accounting for leases

On initial recognition at inception of the contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

Right of use assets

The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain re-measurement of the lease liability.

Generally, right of use assets would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the right of use assets' value.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

After the commencement date, Company measures the lease liability by:

- Increasing the carrying amount to reflect interest on the lease liability.
- Reducing the carrying amount to reflect the lease payments made and;
- Re-measuring the carrying amount to reflect any re-assessment or lease modification.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for leases (continued)
The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Income / expenses recognition
Income from Ijara contracts and financing costs are recognized in profit or loss using the effective profit method. The 'effective profit rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the gross carrying amount of the financial assets or the amortized cost of the financial liability.

When calculating the effective profit rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective profit rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective profit rate includes transaction costs and fees and points paid or received that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Measurement of amortized cost and income
The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating profit, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, profit is calculated by applying the effective profit rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of profit reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, profit is calculated by applying the credit-adjusted effective profit rate to the amortized cost of the asset. The calculation of profit does not revert to a gross basis, even if the credit risk of the asset improves.

Fee income
Fee income and expense that are integral part of the effective interest rate on a financial assets or financial liability are included in the effective interest rate.

Other fee income and expense are recognized as the related services are performed and received.

Borrowing / financing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Financing costs consist of profit and other costs that an entity incurs in connection with the borrowing of funds.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other expenses
Expenses are recognized in the statement of profit or loss and other comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over the accounting period. Expenses are presented using the nature of expense method.

Employees' end of service benefits
The Company operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service cost are recognised in profit or loss on the earlier of:
- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs

Interest cost is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of income of profit or loss:
- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine-settlements
- Net interest expense or income

4. CRITICAL ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government.

Recently, number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved vaccine which have begun to rolled out and will be available to the masses in general during 2021.

4. CRITICAL ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS (CONTINUED)

The Company however continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time and is closely monitoring its exposures at a granular level. The Company has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Company believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates.

The underlying assumptions are also subject to uncertainties which are often outside the control of the Company. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements. The significant accounting estimate impacted by these forecasts and associated uncertainties are predominantly related to allowance for expected credit losses on Ijara receivables. The impact of the COVID-19 pandemic on estimates is discussed further in the relevant note of these financial statements.

Significant areas where management has used judgements, estimates and assumptions are as follows:

i) Allowance for expected credit losses on Ijara receivables

When determining whether the risk of default on Ijara receivables 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. In particular, management judgement is required in determining the ECL on Ijara receivables. These estimates are based on assumptions about a number of factors and actual results may differ, resulting future changes to the allowance for expected credit loss.

ii) Servicing rights under agency arrangements

An intangible asset is recognised for servicing rights under agency arrangements (acquired by the Company pursuant to sale of originated leases to third parties or as consideration for financing arrangements service) at the present value of net future cash flows under the agency arrangements. The net present value computation encompasses among others, estimates in respect of discount rate and fair value of services.

iii) 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 resources to continue in business for the foreseeable future. Additionally, 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, these financial statements have been prepared on a going concern basis.

iv) Fair value measurement – refer note 3 and 20

5. EMPLOYEES' BENEFITS AND COMPENSATION

	For the year ended 31 December	
	2020	2019
Employees' salaries and benefits	**38,803,232**	31,339,627
Employees' health insurance	**2,158,316**	1,861,644
Others	**1,988,714**	1,902,898
	42,950,262	35,104,169

6. OTHER EXPENSES

	For the year ended 31 December	
	2020	2019
Professional fee	**4,609,534**	2,520,352
Processing and marketing expenses	**6,423,276**	3,971,106
Takaful expenses	**3,643,389**	3,616,854
Executive Board fee	**2,111,663**	1,514,224
Sharia Board fee	**166,337**	170,000
Rent	**--**	2,019,166
Others	**9,619,325**	5,449,760
	26,573,524	19,261,462

7. ZAKAT AND INCOME TAX

7(a) Deferred tax asset

	For the year ended 31 December	
	2020	2019
Opening balance	**3,347,230**	4,288,306
Origination / (utilization) of temporary difference	**405,819**	(941,076)
Closing	**3,753,049**	3,347,230

The deferred tax arises on end of service benefits, allowance for expected credit losses on Ijara receivables, unused losses and depreciation of property and equipment.

2020	**Opening deferred tax**	**Recognised in P&L**	**Closing deferred tax**
Deductible temporary difference			
Allowances for expected credit losses	**1,290,391**	**784,295**	**2,074,686**
Carry forward losses	**2,158,130**	**(341,549)**	**1,816,581**
End of service benefit	**210,300**	**58,365**	**268,665**
Total deductible temporary differences	**3,658,821**	**501,111**	**4,159,932**
Taxable temporary difference			
Depreciation of property and equipment	**(311,591)**	**(95,292)**	**(406,883)**
Total taxable temporary differences	**(311,591)**	**(95,292)**	**(406,883)**
Net of deductible and taxable temporary difference	**3,347,230**	**405,819**	**3,753,049**

7. ZAKAT AND INCOME TAX (CONTINUED)

2019	Opening deferred tax	Recognised in P&L	Closing deferred tax
Deductible temporary difference			
Allowances for expected credit losses	1,799,257	(508,866)	1,290,391
Carry forward losses	2,406,727	(248,597)	2,158,130
End of service benefit	152,331	57,969	210,300
Total deductible temporary differences	4,358,315	(699,494)	3,658,821
Taxable temporary difference			
Depreciation of property and equipment	(70,009)	(241,582)	(311,591)
Total taxable temporary differences	(70,009)	(241,582)	(311,591)
Net of deductible and taxable temporary difference	4,288,306	(941,076)	3,347,230

7(b) The movement in zakat and income tax is as follow:

	For the year ended 31 December 2020		
	Zakat	**Income tax**	**Total**
Balance at the beginning of the year	**7,788,713**	**3,338,551**	**11,127,264**
Charge for the year	**4,811,468**	**3,953,441**	**8,764,909**
Payments made during the year	**(4,428,476)**	**(2,190,599)**	**(6,619,075)**
Balance as at end of the year	**8,171,705**	**5,101,393**	**13,273,098**

	For the year ended 31 December 2019		
	Zakat	Income tax	Total
Balance at the beginning of the year	12,078,151	3,088,980	15,167,131
Charge for the year:			
- current year	3,638,259	2,989,448	6,627,707
- prior years	(2,220,476)	--	(2,220,476)
	1,417,783	2,989,448	4,407,231
Payments made during the year	(5,707,221)	(2,739,877)	(8,447,098)
Balance as at end of the year	7,788,713	3,338,551	11,127,264

7. ZAKAT AND INCOME TAX (CONTINUED)

7(c) Zakat and income tax expense

Breakup of zakat and income tax expense in the statement of comprehensive income is as follows:

	Note	**For the year ended 31 December**	
		2020	2019
Charge / (reversal) for the year:			
- current tax and zakat for the year	*7(b)*	**8,764,909**	6,627,707
- prior years	*7(b)*	**--**	(2,220,476)
- deferred tax for the year	*7(a)*	**(405,819)**	941,076
Charge for the year		**8,359,090**	5,348,307

7(d) Status of assessments:

Zakat and income tax declaration for all the years up to 2019 have been filed with the GAZT and acknowledgement certificates have been obtained.

The Company has paid a total demand amount of SR 10.2 million to GAZT as part of the appeal process for the years 2010 to 2012 which the Company believes will be recovered once the appeals are decided in Company's favour.

2010
The Company has made payment of SR 3.7 million to GAZT as part of appeal process in relation to assessment year 2010. The Company has appealed against this assessment before the Higher Appeal Committee ("HAC") on "Ijara receivables" and "WHT". The HAC resolution was in favor of the Company. However, GAZT issued the amended assessment whereby GAZT demanded the WHT and applicable delay penalty (i.e. GAZT did not reflect the HAC resolution with respect to this point). The Company filed a rectification request and the GAZT replied that they transferred the case to the Board of Grievance. A hearing date is yet to be set. Given that HAC resolution was in favour of the Company, the Company has booked a provision in accordance with the resolution amounting to SR 0.5 million.

2011 to 2012
The Company has paid SR 6.5 million to GAZT as part of the appeal process in relation to assessment years 2011-2012. During the year ended 31 December 2019, the Company signed the settlement agreement with GAZT in respect of the assessments from 2011 to 2012. Pursuant to this settlement agreement, the Company was liable to pay SR 0.9 million, which was paid by the Company. The Company is awaiting refund of SR 6.5 million paid as part of the appeal process.

2014 to 2017
During the year ended 31 December 2020, the Company signed the settlement agreement with GAZT in respect of assessment from 2014 to 2017. Pursuant to this settlement agreement, the Company is liable to pay SR 4.3 million in six instalments. Out of these instalments, the Company has paid three instalments of SR 0.85 million, 0.68 million and SR 0.68 million. The remaining provision of SR 2.09 million is included in these financial statements.

8. CASH AND CASH EQUIVALENTS

	2020	2019
Bank balances – current accounts	**9,404,961**	36,026,007
	9,404,961	36,026,007

This represents cash with banks who have investment grade credit ratings, as rated by the international rating agencies.

9. OTHER ASSETS

	Note	**2020**	2019
Financing to customers		**25,445,779**	19,890,622
Ijara mawsofa fi athemmah		**16,469,701**	--
Amount paid to GAZT for years under assessment	*7(d)*	**10,217,805**	10,217,805
Value added tax recoverable		**7,423,180**	10,286,203
Service fee receivables		**3,668,612**	1,448,164
Prepaid expenses		**1,533,596**	2,081,274
Accelerated income tax payment		**1,642,950**	2,054,907
Receivables from Real Estate Development Fund		**1,225,000**	1,225,000
Staff receivables		**102,767**	194,660
Receivables from Ministry of Housing		**--**	36,321
Security deposits		**28,979**	28,979
		67,758,369	47,463,935

10. IJARA RECEIVABLES, NET

	2020	2019
Gross Ijara receivables	**3,484,308,166**	2,715,827,555
Less: Unearned income	**(1,345,845,413)**	(1,126,022,742)
	2,138,462,753	1,589,804,813
Less: Allowance for expected credit losses	**(32,700,395)**	(29,662,449)
Ijara receivables, net	**2,105,762,358**	1,560,142,364

10(a) The maturity of the Ijara receivables held as follows:

	2020			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Gross Ijara receivables	**313,903,741**	**1,073,040,618**	**2,097,363,807**	**3,484,308,166**
Less: Unearned income	**(145,136,677)**	**(497,122,120)**	**(703,586,616)**	**(1,345,845,413)**
	168,767,064	**575,918,498**	**1,393,777,191**	**2,138,462,753**
Less: Allowance for expected credit losses				**(32,700,395)**
Ijara receivables, net				**2,105,762,358**

	2019			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Gross Ijara receivables	261,133,184	1,035,671,979	1,419,022,392	2,715,827,555
Less: Unearned income	(121,502,696)	(509,565,397)	(494,954,649)	(1,126,022,742)
	139,630,488	526,106,582	924,067,743	1,589,804,813
Less: Allowance for expected credit losses				(29,662,449)
Ijara receivables, net				1,560,142,364

10. IJARA RECEIVABLES, NET (CONTINUED)

10(b) Expected credit loss allowance on Ijara receivables are as follows:

	2020			
	12 Month ECL	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Opening balance	**4,075,284**	**7,335,815**	**18,251,350**	**29,662,449**
Transfer from 12 Month ECL	**(11,004,572)**	**7,618,798**	**3,385,774**	**--**
Transfer from Lifetime ECL (not credit impaired)	**74,518**	**(2,325,270)**	**2,250,752**	**--**
Transfer from Lifetime ECL (credit impaired)	**17,245**	**502,634**	**(519,879)**	**--**
Net re-measurement of loss allowance	**8,701,810**	**(2,938,672)**	**9,038,028**	**14,801,166**
Ijara receivables that have been derecognized during the year	**(641,888)**	**(513,981)**	**(1,795,951)**	**(2,951,820)**
New Ijara receivables originated during the year	**1,243,610**	**2,777,796**	**1,419,977**	**5,441,383**
Write-offs	**--**	**--**	**(14,252,783)**	**(14,252,783)**
Closing balance	**2,466,007**	**12,457,120**	**17,777,268**	**32,700,395**

In 2020, new Ijara receivables amounting to SR 790.13 million (2019: 452 million) contributed to increase in loss allowance of SR 1.2 million (2019: SR 0.6 million) for stage I customers. Further, new Ijara receivables amounting to SR 50.93 million (2019: SR 5 million) contributed to increase in loss allowance of SR 2.8 million (2019: SR 0.3 million) for stage II customers. Furthermore, existing Ijara receivables amounting to SR 144.65 million (2019: SR 177 million) contributed to increase in loss allowance of SR 9.03 million (2019: SR 13.7 million) for credit impaired customers. Furthermore, the Company has a gross exposure of SR 1,585.27 million (2019: 1,238.37 million) in stage I, SR 318.53 million (2019: 139.69 million) in stage II and SR 234.66 million (2019: 211.74 million) in stage III classification.

	2019			
	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Opening balance	6,243,581	13,335,509	11,314,741	30,893,831
Transfer from 12 Month ECL	(3,271,611)	2,412,797	858,814	--
Transfer from Lifetime ECL (not credit impaired)	560,441	(2,068,378)	1,507,937	--
Transfer from Lifetime ECL (credit impaired)	69,851	497,684	(567,535)	--
Net re-measurement of loss allowance	490,069	(6,862,820)	13,729,965	7,357,214
Ijara receivables that have been derecognized during the year	(671,082)	(310,044)	(1,120,975)	(2,102,101)
New Ijara receivables originated during the year	654,035	331,067	34,400	1,019,502
Write-offs	--	--	(7,505,997)	(7,505,997)
Closing balance	4,075,284	7,335,815	18,251,350	29,662,449

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2020 and that are still subject to the enforcement is SR 14.25 million (2019: SR 7.5 million).

Consideration due to COVID-19

In response to the impacts of COVID-19, deferred payments program has been offered to the customers either voluntarily by the Company or on account of SAMA initiatives (refer note 22 for further details). The exercise of the deferment option by a customer, in its own, is not considered by the Company as triggering SICR on its own and as a consequence, the impact on ECL for those customers were determined based on their existing staging. However, as part of the Company's credit evaluation process especially given the current economic situation due to after effects of lock down, the Company obtained further information from the customer to understand their financial position and their ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

10. IJARA RECEIVABLES, NET (CONTINUED)

During the year, the Company updated its ECL model and refined some of its assumptions to reflect the current evolving situation of the COVID-19 pandemic. This included an assessment of the support of the Government's actions, the response of businesses and customers (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn, and as a result key changes in the model are as follows:

- through the cycle – probability of default model has been enhanced by updating the existing model with data from 2017 to 2020.
- backstop criteria have been revised from 120+ DPD to 90+ DPD. Similarly, the criteria for
- SICR have been revised from 60+ DPD to 30+ DPD;
- forward-looking variables (economic indicators) have been updated to reflect latest economic data; and
- the scenario weightages have been updated to reflect the current situation of COVID-19.

The PD, EAD and LGD models are subject to the Company's model risk policy that stipulates periodic model monitoring, periodic revalidation and defines approval procedures and authorities according to model materiality.

10(c) Credit quality and expected credit loss allowance of Ijara receivables are as follows:

The days past due of customer which are not credit impaired as at 31 December are as follows:

	2020	2019
1-30 days	**194,639,325**	149,458,540
31 – 60 days	**136,767,291**	106,890,816
61 – 90 days	**41,331,769**	43,929,496
91 – 120 days	**--**	3,488,820
	372,738,385	303,767,672

The fair value of collateral, based on independent appraisals, held against credit impaired Ijara receivables as at 31 December 2020 amounted to SR 201.91 million (2019: SR 239.98 million).

The title deeds of the properties for which financing have been provided are held by Gulf Company for Acquisition ("the Affiliated Company"). The fair value of financial assets is based on transaction price at which the Company has affected the sales. These are not traded in an active market and consequently the fair value is dependent on secondary market transactions (note 20).

The Company in the ordinary course of financing holds collaterals as security to mitigate credit risk. These collaterals comprise of real estate. The collaterals are held against financing facilities and are managed against relevant exposures at their net realisable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary. Because of the Company's focus on credit worthiness of its customers, the Company does not routinely update the valuation of collateral held against all Ijara. Valuation of collateral is updated when the customer is put on the watch list and then the receivable is monitored more closely. The fair values of collateral based on the appraisal at the time of origination of the financial assets, held by the Company as at 31 December 2020 amounted to SR 3,710,505,011 (31 December 2019: 3,015,661,159).

The below table stratifies credit exposure from Ijara receivables into ranges of receivable to value ratio. Ijara receivables to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property at the time of origination of the Ijara. The gross amount of financing used in calculating this ratio excludes unearned income.

10. IJARA RECEIVABLES, NET (CONTINUED)

	2020	2019
Less or equal to 50%	**409,316,460**	433,746,341
51-70%	**506,021,560**	528,731,750
71-85%	**478,545,431**	422,661,999
86-100%	**744,579,302**	204,664,723
Total exposure	**2,138,462,753**	1,589,804,813

11. SERVICING RIGHTS UNDER AGENCY ARRANGEMENTS

The Company enters into arrangements for servicing Ijara receivables on behalf of third parties. Such Ijara receivables represent instruments initially originated by the Company and subsequently sold to third party. The Company acts in the sole capacity of servicing agent represented by activities such as collection of Ijara receivables rentals on behalf of the principals. No credit risk is assumed by the Company throughout the period of servicing.

Assumptions and their sensitivity involved in the calculation of servicing rights under agency arrangements are as follows:

Discount rates
Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration Company's incremental borrowing rate.

Servicing costs
The Company assesses the cost of servicing including staff and other costs, to arrive at a base rate per contract.

12. INTANGIBLE ASSETS

	Software	
	2020	2019
Cost:		
At the beginning of the year	**6,575,250**	6,529,650
Additions during the year	**641,991**	45,600
At the end of the year	**7,217,241**	6,575,250
Accumulated amortisation:		
At the beginning of the year	**6,240,919**	6,026,560
Charge for the year	**288,832**	214,359
At the end of the year	**6,529,751**	6,240,919
Net book value:		
At 31 December	**687,490**	334,331

13. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	Land	Building	Leasehold improvements	Furniture and fixtures	Equipment and motor vehicles	Work in progress ("WIP")	Right-of-use assets	Total 2020
Cost:								
At the beginning of the year	12,250,000	12,384,382	1,352,360	4,347,017	8,893,998	2,428,152	2,512,082	44,167,991
Additions during the year	--	80,247	15,675	21,197	624,648	1,722,461	--	2,464,228
Transfer from CWIP	--	43,950	10,435	64,492	48,500	(167,377)	--	--
Disposals during the year	--	--	--	--	--	--	--	--
At the end of the year	12,250,000	12,508,579	1,378,470	4,432,706	9,567,146	3,983,236	2,512,082	46,632,219
Accumulated depreciation:								
At the beginning of the year	--	84,340	814,090	3,495,480	8,396,054	--	452,677	13,242,641
Charge for the year	--	355,506	118,373	186,788	350,253	--	420,077	1,430,997
Disposals during the year	--	--	--	--	--	--	--	--
At the end of the year	--	439,846	932,463	3,682,268	8,746,307	--	872,754	14,673,638
Net book value:								
At 31 December 2020	12,250,000	12,068,733	446,006	750,438	820,839	3,983,236	1,639,328	31,958,581

13. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

	Land	Building	Leasehold improvements	Furniture and fixtures	Equipment and motor vehicles	Work in progress ("WIP) *	Right-of-use assets**	Total 2019
Cost:								
At the beginning of the year	12,250,000	--	923,142	3,460,893	8,404,511	9,850,781	--	34,889,327
Impact of adoption of IFRS 16	--	--	--	--	--	--	800,000	800,000
Additions during the year	--		429,218	80,024	489,487	5,786,213	1,712,082	8,497,024
Transfer from WIP	--	12,384,382	--	824,460	--	(13,208,842)	--	--
Disposals during the year	--		--	(18,360)	--	--	--	(18,360)
At the end of the year	12,250,000	12,384,382	1,352,360	4,347,017	8,893,998	2,428,152	2,512,082	44,167,991
Accumulated depreciation:								
At the beginning of the year	--	--	697,651	3,457,593	8,209,352	--	--	12,364,596
Charge for the year	--	84,340	116,439	56,247	186,702	--	452,677	896,405
Disposals during the year	--	--	--	(18,360)	--	--	--	(18,360)
At the end of the year	--	84,340	814,090	3,495,480	8,396,054	--	452,677	13,242,641
Net book value:								
At 31 December 2019	12,250,000	12,300,042	538,270	851,537	497,944	2,428,152	2,059,405	30,925,350

* Work in progress relates to some part of the Riyadh office building which is under construction.

** Right-of-use assets comprise of rental premises occupied by the Company's branches.

14. FINANCING FACILITIES

These represent financing facilities from local commercial banks and Saudi Real Estate Re-finance Company ("SRC") which are secured by assignment of proceeds from certain financial assets. The movement in the financing facilities balance for the years ended 31 December is as follows:

	Note	**2020**	2019
Balance at the beginning of the year		**968,850,391**	848,455,835
Proceeds including finance charge during the year		**4,096,918,017**	6,808,419,318
Repayment during the year		**(3,599,769,437)**	(6,688,024,762)
Gain on deferment		**(8,889,122)**	--
Balance at the end of the year		**1,457,109,849**	968,850,391

15. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	**2020**	2019
Accrued and other expenses		**33,244,376**	22,274,904
Amount received from customers	*15(a)*	**11,732,574**	13,332,991
Instalments collected from sold Ijara receivables	*15(b)*	**12,545,216**	9,207,550
Payable to Ministry of Housing		**10,041,408**	915,000
Lease liabilities	*15(c)*	**1,687,137**	2,111,065
Advances from customers – Ijara mawsofa fi athemmah		**195,689**	--
		69,446,400	47,841,510

15(a) This primarily represents down payment received from customers, which is not paid to the seller of the property.

15(b) This represents amount of instalments collected by the Company on behalf of buyers of previously sold financial assets.

15(c) This represents amount of lease liability as per IFRS 16 for the rented offices of the Company. Following are the classification and maturity analysis of lease liabilities into current and non-current:

	2020	2019
Current	**436,958**	425,355
Non-current	**1,250,179**	1,685,710
	1,687,137	2,111,065

Maturity analysis (discounted)

	2020	2019
Not later than 1 year	**436,958**	425,355
Later than 1 year and not later than 5 years	**761,684**	1,185,729
Later than 5 years	**488,495**	499,981
	1,687,137	2,111,065

16. RELATED PARTIES TRANSACTIONS AND BALANCES

The Company carries out transactions with related parties who are defined as related parties in the International Accounting Standard – IAS 24 "Related party Disclosures" in the ordinary course of its business.

Key Management Personnel ("KMP") are those having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Company's KMP includes the Board of Directors and selected key employees who meet the above criteria.

The related party of the Company include the shareholders, affiliated company and key management personnel. In the ordinary course of business, the Company enters into transactions with its related parties, which are based on prices and contract term approved by the Company's management.

The following are the details of significant related party transactions during the years ended 31 December:

Related party	Nature of transaction	Note	2020	2019
Key management personnel	Short-term employment benefits:			
	- Remuneration		**7,478,098**	5,738,524
	- Board fees		**2,278,000**	1,684,224
	Employees' end of service benefits		**195,006**	245,370
Gulf Company for Acquisition – An affiliated company	Service fee	*16(c)*	**45,000**	45,000

The following related party balances are included in the statement of financial position as at 31 December:

Related party	Nature of balance	Note	2020	2019
Key management personnel	Board fees payable		**1,905,000**	2,186,667
	Remuneration payable		**2,080,000**	1,779,756
	Employees' end of service benefits		**575,267**	380,261
Gulf Company for Acquisition – An affiliated company	Due from an affiliated company:			
	- Loan	*16(a)*	**3,953,220**	3,953,220
	- Others	*16(b)*	**152,549**	96,482
			4,105,769	4,049,702
	Due to an affiliated company:			
	- Service fee payable	*16(c)*	**514,638**	469,638

16. RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

16(a) This represents an interest-free loan to the Affiliated Company which is repayable on demand with no fixed repayment date. This loan is categorised in stage 1.

16(b) This represents expenses paid by the Company on behalf of the Affiliated Company and cheque received in the name of the Affiliated Company on account of early settlement of Ijara receivables of the Company, as the title deeds are in the name of the Affiliated Company.

16(c) This represents service fee charged by the Affiliated Company in relation to holding customers title deeds on behalf of the Company.

17. SHARE CAPITAL

As at 31 December 2020, the authorised, issued and fully paid-up share capital of the Company was divided into 57,500,000 shares (31 December 2019: 57,500,000 shares) of SR 10 each.

18. STATUTORY RESERVE

In accordance with the Company's By-laws, the Company is required to transfer at least 10% of net income to a statutory reserve until such reserve equals 30% of its paid up capital as a minimum. This reserve is not available for distribution.

19. RISK MANAGEMENT

Financial instruments carried on the statement of financial position comprise cash and cash equivalents, Ijara receivables, other receivables, financial instrument held at FVOCI, due from an affiliated company, financing facilities, due to an affiliated company, dividend payable, accounts and other payables and other liabilities.

The Company's activities expose it to a variety of financial risks: market risk (including special commission rate risks), credit risk, liquidity risk and operational 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 under policies approved by the Board of Directors. The oversight of risk management is done by the Credit and Risk Committee established by the Company's Board of Directors.

There are no financial instruments which are off-set in these financial statements. The Company has exposure to the following risks from its financial instruments:

(i) Special commission rate risk

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market special commission rates. The Company is subject to variations in the fair value of its financial instruments and the net special commission income arising from changes to special commission rate on its real estate financing and financing facilities, which are generally priced on SIBOR.

The sensitivity to a +/- 15 basis points change in special commission rates on real estate financing, with all other variables constant on the Company's income for the year is SR +/- 3,158,644 (2019: SR +/- 2,340,214).

The sensitivity to a +/- 15 basis points change in special commission rates on financing facilities, with all other variables constant on the Company's income for the year is SR -/+ 2,185,665 (2019: SR -/+ 1,453,276).

19. RISK MANAGEMENT (CONTINUED)

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations and arises principally from the Company's Ijara receivables. The Company has established procedures to manage credit exposure including evaluation of customers' credit worthiness, formal credit approvals, obtaining collateral such as title of assets.

Furthermore, all the Ijara receivables are allowed for the maximum term of 360 months. As per such policy, an Ijara is not granted unless the borrower meets certain basic requirements, which are set out below:

- Age limit at the time of funding and contractual maturity
- Income earned
- Debt to income ratio
- Maximum finance to value ratio

The Company monitors its real estate financing on a weekly basis. Furthermore, all real estate financing are backed by the legal titles of those properties which are registered in the name of the Affiliated Company.

In case of real estate financing past due for six months, the Company takes legal actions against the borrower and collects the receivable by selling the property against which the financing is provided. The Company has had proven success in completing this process and recovering its dues.

Modified financial assets

The contractual terms of an Ijara may be modified for a number of reasons, including changing market conditions and other factors not related to credit deterioration of the customer. An existing Ijara whose terms have been modified may be derecognized and the renegotiated Ijara recognized as a new Ijara at fair value in accordance with the accounting policy set out in note 4.

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 reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Company renegotiates Ijara to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Company's forbearance policy, Ijara 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. The Company's Executive Committee regularly reviews reports on forbearance activities.

19. RISK MANAGEMENT (CONTINUED)

(iii) Credit risk (continued)

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired / in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

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 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 more economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by the International Monetary Fund.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

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. The economic scenarios used as at 31 December 2020 included the following key indicators.

31 December 2020		31 December 2019	
Economic indicators	**Weightages**	Economic indicators	Weightages
Gross domestic product Brent oil Government Spending Credit Growth Unemployment Rate	**Upside 20%** **Base case 50%** **Downside 30%**	Gross domestic product Net lending Net debt	Upside 15% Base case 70% Downside 15%

The ECL computed under three different scenarios before applying the weightages as used by the Company are as follows:

	2020	2019
100% upside	**30,827,393**	29,269,824
100% base case	**32,454,009**	29,663,888
100% downside	**34,359,704**	30,048,359

19. RISK MANAGEMENT (CONTINUED)

(iii) Credit risk (continued)

The table below reflects the maximum gross exposure to credit risk for the components on the statement of financial position:

	2020	2019
Cash and cash equivalents	**9,404,961**	36,026,007
Ijara receivable	**2,105,762,358**	1,560,142,364
Other receivables	**54,364,018**	33,109,949
Due from an affiliated company	**4,105,769**	4,049,702
	2,173,637,106	1,633,328,022

Credit quality by class of financial assets
The Company manages the credit quality of financial assets based on its internal credit policy. The credit quality of real estate financing is detailed in note 11(c).

Financial assets pledged as collateral
Financial assets are pledged as collateral for the purpose of financing facilities under terms that are normal to enter into agreement. At 31 December 2020, the pledged Ijara receivables were SR 1,845,198,836 (2019: SR 1,132,896,991).

Concentration of credit risk
The Company monitors the concentration of credit risk by sectors. The Company's Ijara receivables exposure primarily relates to private sector.

(iii) 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 table below summarises the maturity profile of the Company's financial liabilities at 31 December, based on contractual undiscounted repayment obligations. The contractual maturities of financial liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date.

2020	**Less than 3 months**	**3-12 months**	**1-5 Years**	**Total**
Financing facilities	**19,429,635**	**1,173,665,605**	**284,013,042**	**1,477,108,282**
Dividend payable	--	**10,763,638**	--	**10,763,638**
Other liabilities	**24,164,121**	**10,850,554**	**1,434,300**	**36,448,975**
Accounts and other payables	**900,672**	--	--	**900,672**
Due to an affiliated company	--	--	**514,638**	**514,638**
Total	**44,494,428**	**1,195,279,797**	**285,961,980**	**1,525,736,205**

19. RISK MANAGEMENT (CONTINUED)

iv) Liquidity risk (continued)

The Company's financial liabilities comprise financing facilities amounting to SR 1,457,109,849 as of 31 December 2020 (2019: SR 968,850,391). For amount due to an affiliated company, the Company has an implicit understanding with the affiliated company that their respective payable balance would be repaid at the Company's discretion based on usage and requirements of funds.

2019	Less than 3 months	3-12 months	1-5 years	Total
Financing facilities	37,847,641	335,513,397	599,531,269	972,892,307
Other liabilities	20,853,383	3,119,376	1,955,449	25,928,208
Accounts and other payables	1,428,233	--	--	1,428,233
Due to an affiliated company	--	--	469,638	469,638
Total	60,129,257	338,632,773	601,956,356	1,000,718,386

The table below shows an analysis of financial assets and financial liabilities according to when they are estimated to be recovered or settled.

2020	**Less than 12 months**	**More than 12 months**	**Total**
Cash and cash equivalents	**9,404,961**	**--**	**9,404,961**
Other receivables	**54,364,018**	**--**	**54,364,018**
Ijara receivable, net	**168,767,064**	**1,936,995,294**	**2,105,762,358**
Financial asset held at fair value through other comprehensive income-equity instrument	**--**	**892,850**	**892,850**
Due from an affiliated company	**152,549**	**3,953,220**	**4,105,769**
Total assets	**232,688,592**	**1,941,841,364**	**2,174,529,956**
Financing facilities	**658,584,118**	**798,525,731**	**1,457,109,849**
Dividend payable	**--**	**10,763,638**	**10,763,638**
Due to an affiliated company	**--**	**514,638**	**514,638**
Account and other payables	**900,672**		**900,672**
Other liabilities	**34,951,845**	**1,250,179**	**36,202,024**
Total liabilities	**694,436,635**	**811,054,186**	**1,505,490,821**
Net	**(461,748,043)**	**1,130,787,178**	**669,039,135**

19. RISK MANAGEMENT (CONTINUED)

iv) *Liquidity risk (continued)*

2019	Less than 12 months	More than 12 months	Total
Cash and cash equivalents	36,026,007	--	36,026,007
Other receivables	33,109,949	--	33,109,949
Ijara receivable, net	139,630,488	1,420,511,876	1,560,142,364
Financial asset held at fair value through other comprehensive income-equity instrument	--	892,850	892,850
Due from an affiliated company	96,482	3,953,220	4,049,702
Total assets	208,862,926	1,425,357,946	1,634,220,872
Financing facilities	369,319,122	599,531,269	968,850,391
Due to an affiliated company	--	469,638	469,638
Account and other payables	1,428,233	--	1,428,233
Other liabilities	23,880,897	1,685,709	25,566,606
Total liabilities	394,628,252	601,686,616	996,314,868
Net	(185,765,326)	823,671,330	637,906,004

The maturity profiles are based on the contractual maturity and estimated timing of net cash inflows and outflows from the recognized assets and liabilities respectively. The Company sold certain Ijara receivables amounting to SR 159 million in 2020 (2019: SR 165 million), with a right to collect instalments on behalf of the principal for the servicing fees.

20. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets consist of cash and cash equivalents, investments at FVOCI, Ijara receivables and due from an affiliated company, other receivable. Financial liabilities consist of due to affiliated companies, financing facilities, dividend payable, accounts and other payables and other liabilities.

Fair value hierarchy

The Company uses 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.

The table below presents the financial instruments at their fair values as of 31 December based on the fair value hierarchy:

20. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	2020				
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
Ijara receivables, net	**2,105,762,358**	--	--	**2,207,808,927**	**2,207,808,927**
Financial asset held at FVOCI - equity instrument	**892,850**	--	--	**892,850**	**892,850**
Total	**2,106,655,208**	--	--	**2,208,701,777**	**2,208,701,777**

	2019				
	Carrying value	Level 1	Level 2	Level 3	Total
Ijara receivables, net	1,560,142,364	--	--	1,837,995,115	1,837,995,115
Financial asset held at FVOCI - equity instrument	892,850	--	--	892,850	892,850
Total	1,561,035,214	--	--	1,838,887,965	1,838,887,965

The valuation of Ijara receivables is estimated using contractual cash flows discounted at latest variable yield, which is the contracted profit rate for recent transactions. Input into the discounted cash flow techniques includes credit adjusted expected rates as determined from recent transactions and contractual cash flows.

Management assessed that the carrying amount of other financial assets and financial liabilities largely approximate the fair value due to either short-term maturities on those instruments or re-pricing of those instruments and these financial instruments are classified as level 3.

There have been no transfers to and from any levels during the year.

21. COMMITMENTS

The Company has outstanding irrevocable commitment for providing Ijara financing to customers for specified real estate property amounted to SR 5,998,500 (2019: SR 12,377,928). Further, the Company has outstanding irrevocable commitment to developers for the construction of residential units for Ijara mawsofa fi athemmah project amounted to SR 12,301,892 (2019: NIL).

22. SAMA SUPPORT PROGRAMS AND INITIATIVES

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. Whilst the PSFSP encompasses several programs, the one most pertinent to the Company as at 31 December 2020 is the deferred payments program.

As part of the deferred payments program launched by SAMA, the Company was required to defer payments for nine months on Ijara facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company effected the payment reliefs by deferring the instalments falling due within the period of nine months from 14 March 2020 to 14 December 2020 without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed

22. SAMA SUPPORT PROGRAMS AND INITIATIVES (CONTINUED)

and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses of SR 3.20 million which have been presented as part of special commission income.

Further to the above, on 1 December 2020, SAMA extended the deferred payments program until 31 March 2021. The Company has affected the payment reliefs by deferring the instalments falling due within the period from 15 December 2020 to 31 March 2021. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of the arrangement. This resulted in the Company recognizing an additional modification loss of SR 4.84 million.

As a result of the above program and related extensions, the Company has deferred the payments amounting to SR 11.89 million on the MSME portfolio and accordingly, has recognised total modification losses of SAR 8.04 million during the year. The total gross exposure against these customers amounted to SR 134.56 million as at the year end.

Furthermore, in accordance with the PSFSP, the banks and SRC allowed the Company to defer its loan repayments, which were due in the period from 15 March 2020 to 31 March 2021. Hence, the Company recognised a total modification gain of SR 24.28 million during the year and this has been presented as part of financial charges of which SR 15.39 million has been unwound.

As at 31 December 2020, the Company is yet to participate in SAMA's facility guarantee program.

23. DIVIDEND PAYABLE

The shareholders in the General Assembly Meeting held on 2 April 2020 approved the cash dividend of SR 0.5 per share. Dividend amounting to SR 28.75 million has been declared and approved, of which SR 17.98 million has been paid during the year.

24. SUBSEQUENT EVENT

There were no subsequent events after the statement of financial position date which require adjustments to/or disclosure in the financial statements.

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2020 were approved by the Board of Directors on 13 Rajab 1442H (Corresponding to 25 February 2021).