TAMWEEL Al OULA COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
FINANCIAL STATEMENTS AND INDEPENDEDNT AUDITOR'S REPORT
31 DECEMBER 2020

TAMWEEL Al OULA COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDEDNT AUDITOR'S REPORT
31 DECEMBER 2020

Table Of Contents **Page**

Independent auditor's report	1 - 3
Statement of profit or loss and other comprehensive income	4
Statement of financial position	5
Statement of changes in shareholders' equity	6
Statement of cash flows	7
Notes to the financial statements	8 - 40

Building a better working world

Ernst & Young & Co. (Certified Public Accountants)
General Partnership
Adeer Tower, 15th Floor
Prince Turki Bin Abdulaziz Street, Al Khobar Corniche
P.O. Box 3795
Al Khobar 31952
Kingdom of Saudi Arabia
Head Office – Riyadh

Registration No. 45/11/323
C.R. No. 2051058792

Tel: +966 13 840 4600
Fax: +966 13 882 0087

ey.ksa@sa.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF TAMWEEL AL OULA COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

Opinion

We have audited the financial statements of Tamweel Al Oula Company (A Saudi Closed Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing 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 professional code of conduct and ethics 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 International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and 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 are responsible for overseeing the Company's financial reporting process.

Building a better working world

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF TAMWEEL AL OULA COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY) – (continued)

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 International Standards on Auditing 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism 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, 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 auditor's 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.

EY
Building a better
working world

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF TAMWEEL AL OULA COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY) – (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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.

for Ernst & Young

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

Marwan Al-Afaliq
Certified Public Accountant
Registration No. 422

18 Rajab 1442H
2 March 2021
Al Khobar

TAMWEEL AL OULA COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	***2020***	*2019*
		SR	*SR*
Revenue			
Revenue from operations	7	**49,588,382**	41,683,528
Revenue from other activities	8	**9,386,081**	3,400,828
TOTAL INCOME		**58,974,463**	45,084,356
EXPENSES			
Finance costs and bank charges	9	**(9,751,486)**	(4,265,846)
Insurance expenses for finance leasing activities		**(4,578,074)**	(4,479,986)
Salaries and employees' related expenses	10	**(20,465,928)**	(15,344,757)
Depreciation and amortisation	11	**(2,592,260)**	(2,343,302)
Other general and administrative expenses	12	**(5,895,958)**	(6,452,825)
Provision for expected credit losses on Islamic finance receivables	13	**(13,452,070)**	(2,593,118)
TOTAL EXPENSES		**(56,735,776)**	(35,479,834)
PROFIT BEFORE ZAKAT		**2,238,687**	9,604,522
Zakat	27	**(461,586)**	(979,354)
PROFIT FOR THE YEAR		**1,777,101**	8,625,168
OTHER COMPREHENSIVE INCOME			
Other comprehensive (loss) / gain not to be reclassified to profit or loss in subsequent periods:			
Re-measurement (loss) / gain on employees' defined benefits liabilities	23	**(301,513)**	7,321
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,475,588**	8,632,489

The attached notes 1 to 33 form part of these financial statements.

TAMWEEL AL OULA COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Note	***2020*** ***SR***	*2019* *SR*
ASSETS			
NON-CURRENT ASSETS			
Net investment in Islamic finance receivables	13	**539,544,935**	215,740,786
Right-of-use assets	14	**1,113,247**	2,303,353
Intangible assets	15	**2,044,993**	2,286,790
Property and equipment	16	**1,011,813**	1,087,151
Equity investment at fair value through other comprehensive income "OCI"	17	**892,850**	892,850
TOTAL NON-CURRENT ASSETS		**544,607,838**	222,310,930
CURRENT ASSETS			
Net investment in Islamic finance receivables - current	13	**392,180,423**	176,305,779
Prepayments and other receivables	18	**2,928,836**	4,405,724
Cash and cash equivalents	19	**105,446,985**	13,715,010
TOTAL CURRENT ASSETS		**500,556,244**	194,426,513
TOTAL ASSETS		**1,045,164,082**	416,737,443
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	20	**250,000,000**	250,000,000
Statutory reserve		**6,732,313**	6,554,603
Retained earnings		**15,772,213**	14,474,335
TOTAL SHAREHOLDERS' EQUITY		**272,504,526**	271,028,938
NON-CURRENT LIABILITIES			
Loans and borrowings	21	**394,518,316**	41,197,316
Government grant	21	**18,764,791**	3,627,049
Lease liabilities	22	**-**	445,160
Employees’ defined benefits liabilities	23	**4,506,717**	3,767,769
TOTAL NON-CURRENT LIABILITIES		**417,789,824**	49,037,294
CURRENT LIABILITIES			
Loans and borrowings - current portion	21	**288,190,939**	62,529,415
Accounts payable	24	**55,631,399**	13,960,939
Amounts due to related parties	25	**6,832,919**	12,226,669
Lease liabilities - current	22	**252,231**	1,114,730
Accrued expenses and other liabilities	26	**3,500,537**	5,849,040
Provision for zakat	27	**461,707**	990,418
TOTAL CURRENT LIABILITIES		**354,869,732**	96,671,211
TOTAL LIABILITIES		**772,659,556**	145,708,505
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,045,164,082**	416,737,443

The attached notes 1 to 33 form part of these financial statements.

TAMWEEL AL OULA COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2020

	Share capital	*Statutory reserve*	*Retained earnings*	*Total*
	SR	*SR*	*SR*	*SR*
As at 1 January 2019	250,000,000	5,692,086	20,546,753	276,238,839
Profit for the period	-	-	8,625,168	8,625,168
Other comprehensive loss for the year	-	-	7,321	7,321
Total comprehensive income for the year	-	-	8,632,489	8,632,489
Dividends (note 28)	-	-	(13,842,390)	(13,842,390)
Transfer to statutory reserve	-	862,517	(862,517)	-
As at 31 December 2019	250,000,000	6,554,603	14,474,335	271,028,938
Profit for the year	-	-	1,777,101	1,777,101
Other comprehensive income for the year	-	-	(301,513)	(301,513)
Total comprehensive income for the year	-	-	1,475,588	1,475,588
Transfer to statutory reserve	-	177,710	(177,710)	-
As at 31 December 2020	**250,000,000**	**6,732,313**	**15,772,213**	**272,504,526**

The attached notes 1 to 33 form part of these financial statements.

TAMWEEL AL OULA COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

		2020	2019
		SR	*SR*
OPERATING ACTIVITIES			
Profit before zakat		**2,238,687**	9,604,522
Adjustments to reconcile income before zakat for the year to net cash flows:			
Depreciation and amortisation	11	**2,592,260**	2,343,302
Finance costs and bank charges		**9,751,486**	4,265,846
Employees' defined benefits liabilities, charged	23	**719,861**	631,450
Charge of expected credit loss on Islamic finance receivables	13	**13,452,070**	2,593,118
Loss on modification of net investment in Islamic finance lease		**4,768,767**	-
Grant income realised	8	**(13,963,487)**	(2,214,854)
Gain on sale of property and equipment		**(220)**	-
		19,559,424	17,223,384
Changes in operating assets and liabilities:			
Net investment in Islamic finance receivables		**(553,130,863)**	(108,951,919)
Prepayments and other receivables		**(3,291,879)**	1,562,800
Amounts due to related parties		**(5,393,750)**	10,434,387
Accounts payable		**41,670,460**	10,387,583
Accrued expenses and other liabilities		**(2,348,503)**	2,971,879
Cash used in operations		**(502,935,111)**	(66,371,886)
Employees' defined benefits liabilities, paid		**(396,714)**	(465,172)
Zakat paid		**(990,297)**	(458,071)
Finance costs and bank charges paid		**(2,610,387)**	(1,922,400)
Net cash used in operating activities		**(506,932,509)**	(69,217,529)
INVESTING ACTIVITIES			
Purchase of property and equipment	16	**(527,332)**	(497,258)
Additions of intangible assets	15	**(573,141)**	(839,996)
Proceeds from disposal of property and equipment		**15,674**	-
Net cash used in investing activities		**(1,084,799)**	(1,337,254)
FINANCING ACTIVITIES			
Dividends paid		**-**	(13,842,390)
Payment of lease liabilities		**(1,359,139)**	(1,888,607)
Proceeds from loans and borrowings		**661,534,882**	105,000,000
Repayment of loans and borrowings		**(60,426,460)**	(38,354,977)
Net cash from financing activities		**599,749,283**	50,914,026
INCREASE / (DECREASE) IN BANK BALANCES AND CASH		**91,731,975**	(19,640,757)
Bank balances and cash at the beginning of the year		**13,715,010**	33,355,767
BANK BALANCES AND CASH AT THE END OF THE YEAR		**105,446,985**	13,715,010

The attached notes 1 to 33 form part of these financial statements.

1 CORPORATE INFORMATION

Tamweel Al Oula Company ("the Company"), is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 2050055043 dated 15 Ramadan 1436H (corresponding to 2 July 2015).

The Company is engaged in providing financial leasing in addition to financing production assets and offering consumer finance in accordance with the license number 39/ASH/201512 dated 21 Safar 1437H (corresponding to 3 December 2015) issued by Saudi Central Bank ("SCB" or "SAMA").

The Company's registered office is located at PO 34232, Dammam, Kingdom of Saudi Arabia. The Company operates through the following branches:

Commercial Registration Name	***Number***	***Location***	***Date***
Tamweel Al Oula - Branch	2051065442	Al Khobar	17/04/1493H
Tamweel Al Oula - Branch	2252101795	Al Hasa	02/06/1439H

The financial statements of the Company as of 31 December 2020 were authorised for issuance on 2 March 2021 (corresponding to 18 Rajab 1442H).

2 BASIS OF PREPARATION

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS" as endorsed in KSA).

On 17 July 2019, SAMA instructed the Companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of profit or loss. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Accordingly in prior year, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors.

2.1 Basis of measurement

The financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except otherwise as disclosed in note 5.

2.2 Going concern

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

2.3 Presentation and functional currency

The presentation and functional currency of the Company is Saudi Riyal.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets, liabilities and the accompanying disclosures, and the disclosure of contingent liabilities. It also requires management to exercise its judgement 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 advices and expectations of future events that are believed to be reasonable under the circumstances.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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, following which the Government has ended the lockdowns and has taken phased measures towards normalization.

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 a vaccine which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the COVID-19 vaccine such as how long the immunity last, whether vaccine will prevent transmission or not etc.; however, the testing results showed exceptionally high success rates. Hence, the Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level.

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 estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses.

Estimates and assumptions

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognised in the financial statements) include:

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Credit losses of finance lease and murabaha financing receivables

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

The Company’s Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Credit losses of finance lease and murabaha financing receivables (continued)

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

- The Company's model for determination of defaults, which assigns loss rate (LR) to the individual pool of receivables and assessing the exposure at default (EAD).
- The Company's criteria for assessing the credit losses for Islamic finance lease receivables and murabaha financing receivables to be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment.
- The segmentation of Islamic finance lease receivables and murabaha financing receivables when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the appropriate inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as government spending, and the effect on LR.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The current events and the prevailing economic condition require the Company to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These would primarily revolve around either adjusting macroeconomic factors used by the Company in estimation of expected credit losses or revisions to the scenario probabilities currently being used by the Company in ECL estimation. The adjustments to macroeconomic factors and scenario weightings resulted in an additional ECL of SR 13.5 million for the Company.

As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental and the Company will continue to reassess its position and the related impact on a regular basis.

Useful lives of property and equipment and intangible assets

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

Determination of discount rate for lease contracts

The Company as a lessee, measures the lease liability at the present value of the unpaid lease payments at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate.

Incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in similar economic environment.

The Company determines its incremental borrowing rate with reference to its existing and historical cost of borrowing adjusted for the term and security against such borrowing.

Determination of lease term of contracts with renewal and termination options - Company as a lessee

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Determination of lease term of contracts with renewal and termination options - Company as a lessee (continued)

The Company has the option, under some of its leases to lease the assets for additional terms from a year to three years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal.

After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Company included the renewal period as part of the lease term for leases of office and showrooms due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years).

Determination of discount rate for below-market loans:
Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration time value of money. The Company determines the discount rate for below-market loans with reference to similar loans obtained from non-government agencies.

Valuation of employees' defined benefits liabilities
Employees' defined benefits liabilities represent obligations that will be settled in the future and require assumptions to project obligations, if any. The accounting requires management to make further assumptions regarding variables such as discount rates, rate of compensation increases, mortality rates and employment turnover. Periodically, management of the Company consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee' defined benefit costs incurred.

Provisions
By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4.1 Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Company but may impact future periods should the Company enter into any business combinations.

4.2 Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Company as it does not have any interest rate hedge relationships.

4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

4.3 Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Company.

4.4 Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Company.

4.5 Amendments to IFRS 16 COVID-19 Related Rent Concessions

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Company.

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Company in preparing these financial statements are applied consistently, which are as follows:

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when:

- It is expected to be realised or intended to sold or consumed in normal operating cycle;
- It is expected to be realised within twelve months after the reporting period; or
- It is cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer settlement of liability for at least twelve months after the reporting period.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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.

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 best economic 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 determines 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.

Revenue

Leasing revenue

The Company is genearting leasing revenue from Ijarah contracts. Gross investment in Islamic finance lease represents the gross lease payments receivable by the Company, and the net investment represents the present value of these lease payments discounted at profit rate implicit in the lease. The difference between the gross investment and the net investment is recognised as unearned finance income. Finance lease income is recognised over the period of the lease on a systematic basis, which results in a constant periodic rate of return on the net investment outstanding. As part of the periodic installments due from customers, the Company charges customers for insurance cover on the vehicles under lease contracts. Insurance charges represent cost of insurance (premium). Consequently, premiums are paid to the Insurers for the insurance cover for the vehicles under lease, pursuant to the agreement.

Tawaroq Revenue

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue (continued)

Tawaroq Revenue (continued)

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-

Service fees

Service fees charged in respect of processing and other services are recognized as income over the period of financing agreements.

Other income

Other income is recognized when earned.

General and administrative expenses

General and administrative expenses include direct and indirect costs not specifically part of the operating activities of the Company.

Borrowing 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. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Zakat

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT") applicable on financing companies. Zakat expense is charged to the profit or loss. The charge for the period is calculated based on estimated zakat charge for the whole year.

The Zakat base computed in accordance with the formula specified in the Zakat Regulations is also subject to thresholds for minimum and maximum liability.

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia and on accruals basis. The provision is charged to profit or loss.

Value added tax (VAT)

Assets and expenses are recognised net of amount of VAT, except when VAT incurred on a purchase of assets or services is not recoverable from the General Authority of Zakat and Tax (GAZT), in which case, VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Foreign currencies

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss and other comprehensive income.

Islamic finance receivables

Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees such transfers are classified as Islamic financing receivables. Islamic financing receivables are recorded at the lower of the fair value of the financing asset and the present value of the minimum payments.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Islamic finance receivables (continued)

The Company offers its customers certain non-commission based products, which are approved by its Shariah Board, as follows:

Ijara

Ijara is a an agreement whereby the Company, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee. The difference between the gross receivables and the present value of the receivables is recognised as unearned finance income. Finance income from Ijara contract is recognised over the term of the Ijara using the net investment method, which reflects a constant periodic rate of return.

Murabaha

Murabaha is an agreement whereby the Company sells to a customer an asset which the Company has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

Gross amounts due under the Murabaha sale contracts include the total of future sale payments on the Murabaha agreement (Murabaha sale contract receivable). The difference between the Murabaha sale contracts receivable and the cost of the sold asset, is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the Murabaha sale contracts receivable.

Tawaroq

Tawarruq is a sharia compliant finance method, with which you can raise loan finance through buying installments in a commodity, owned by the company. The applicant then authorizes whom he see's to sell his shares in the commodity according to the form approved from the sharia'a committee. Then the agent deposits the proceeds into his account.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand, cash in bank and short-term murabaha deposits with original maturity of three months or less.

Lease

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use).

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Lease liability

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease (continued)

Lease liability (continued)

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

Short-term and low value assets' leases

Short-term leases are leases with a lease term of 12 months or less. Low-value assets are items that do not meet the Company's capitalization threshold and are considered to be insignificant for the statement of financial position for the Company as a whole. Payments for short-term leases and leases of low-value assets are recognised on a straight-line basis in the statement of profit or loss.

Leases in which substantially all the risks and benefits of ownership of the asset are not transferred to the Company are classified as operating leases. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Intangible assets

Intangible assets includes software; Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets are amortised over a period of 1 - 5 years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in statement of profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

	Years
Leasehold improvements	5
Office furniture and fixtures	4
Computers	4-5

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised. The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, at amortised cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVIS).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

(i) Financial assets at amortised cost (debt instruments)

(ii) Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

(iii) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

(iv) Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes net investment in Islamic finance receivables.

Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets at amortised cost (debt instruments) (continued)

The Company's does not have debt instruments at fair value through OCI.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company elected to classify irrevocably its non-listed equity investments under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) 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.

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 Company continues to recognise the transferred asset to the extent of its continuing involvement. 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.

Impairment of financial instruments

The Company recognizes loss allowances for ECL on the following financial instruments that are not measured at FVIS:

- Financial assets that are debt instruments; and
- Loan commitments issued, if any.

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial instruments (continued)

The key inputs into the measurement of ECL are based on the following variables:

- Loss rate · Exposure at default (EAD) The Company categorizes its leasing and murabaha portfolio into four groups depending on the size of financing and associated risks:

  - Large exposure of large customers;
  - Collective SME's customers, and
  - Collective retail customers.

The Company also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs. The forward-looking information will include the elements such as expert judgement, macroeconomic factors (e.g., government expenditure and money supply) and economic forecasts obtained through internal and external sources.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date; an estimate of lifetime loss is made, considering the loss rate, exposure at defaults, taking into account the forward looking information i.e. the macro-economic factor;
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash inflows.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original special commission rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

A financial asset 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.

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in forms, of non-financial assets. Collateral is not recorded on the Company’s statement of financial position. The fair value of collateral is considered for the calculation of ECLs. The value of the collateral is determined at inception and subsequently as and when considered necessary.

Collateral repossessed

The Company determine whether a repossessed asset can be sold. Assets are sold in line with the Company’s policy and any difference in the amount lent and assets sold is claimed from customers.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial instruments (continued)

Write-off
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets 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.

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade payables, amounts due to related parties, lease liabilities and loans and borrowings.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

(i) Financial liabilities at fair value through profit or loss

(ii) Loans and borrowings

Out of above, only the category (ii) is applicable for the Company, which is described hereunder:
Loans and borrowings
This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

When the Company obtains government loan at below market interest rate, the loan's amortised cost is calculated using an effective interest rate based on market rates. The subsidy is recognised as government grant.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

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.

Impairment of non-financial assets
The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-zakat discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

Statutory reserve

In accordance with the Saudi Arabian Regulations for Companies, 10% of the profit for the year is required to be transferred to the statutory reserve each year. The shareholders' may resolve to discontinue such transfer when the reserve equals 30% of the capital. This reserve is not normally available for distribution except in circumstances specified in the Saudi Arabian Regulations for Companies.

Employees' benefits

(i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves and air fare that are expected to be settled wholly within twelve months after the end of the year in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting year and are measured at amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in statement of financial position.

(ii) Employees' terminal benefits

The Company has end of service benefits which is qualifies as defined benefits plan. The net pension liability or liability recognised in the statement of financial position in respect of defined benefit post-employment plans is the present value of the projected defined benefits obligation (DBO) less fair value of plan assets, if any.

DBO is re-measured on a periodic basis by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The net interest cost is calculated by applying the discount rate to the net balance of the DBO and the fair value of plan assets. This cost is included in employee benefit expense in the statement of income.

Re-measurement gains and losses arising from changes in actuarial assumptions are recognised in the period in which they occur in OCI. Changes in the present value of the DBO resulting from plan amendments or curtailments are recognised immediately in the statement of income as past service costs.

In KSA, for the liability for employees' end of service benefits, the actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labor and Workmen Law as well as the Company policy.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management of the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current Pre-tax (Zakat) rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Accounting for government grants and disclosure of government assistance

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as a government grant and is recognised in the statement of profit or loss on a systematic basis over the period in which the entity recognises as expense the related costs which the grants is intended to compensate.

Cash dividends

The Company's recognises a liability to pay dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws of Saudi Arabia, a distribution is authorised when it is approved by the shareholders. a corresponding amount is recognised directly in equity.

6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

6.1 IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

6.2 Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

6.2 Amendments to IFRS 3: Definition of a Business (continued)

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company will not be affected by these amendments on the date of transition.

6.3 Amendments to IAS 1 and IAS 8: Definition of Material

The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

7 REVENUE FROM OPERATIONS

	2020	*2019*
	SR	*SR*
Finance income and insurance revenue	**40,220,319**	39,581,245
Tawaroq revenue	**9,368,063**	2,102,283
	49,588,382	41,683,528

Customer wise revenue recognition

	2020	*2019*
	SR	*SR*
External customers	**43,285,895**	34,523,707
Related parties	**6,302,487**	7,159,821
	49,588,382	**41,683,528**

All of the Company's revenue is generated in the Kingdom of Saudi Arabia.

8 REVENUE FROM OTHER ACTIVITIES

	2020	*2019*
	SR	*SR*
Finance income, government grant	**6,312,571**	2,214,854
Reversal of provisions no longer required	**779,773**	-
Income from human resource development fund	**587,951**	31,000
Management fee	**120,000**	120,000
Income from term deposit	**115,930**	331,841
Others	**1,469,856**	703,133
	9,386,081	3,400,828

9 FINANCE COSTS AND BANK CHARGES

	2020	*2019*
	SR	*SR*
Finance cost on loans and borrowings	**9,437,873**	3,914,932
Finance costs on employees' defined benefits liabilities (note 23)	**114,288**	132,886
Finance cost on lease liabilities (note 22)	**51,480**	77,791
Bank charges	**147,845**	140,237
	9,751,486	4,265,846

10 SALARIES AND EMPLOYEES' RELATED EXPENSES

	2020	*2019*
	SR	*SR*
Payroll cost	**14,681,678**	12,019,061
Bonuses and commissions	**3,624,838**	1,435,716
Other employees' costs	**2,159,412**	1,889,980
	20,465,928	15,344,757

11 DEPRECIATION AND AMORTISATION

	2020	*2019*
	SR	*SR*
Depreciation of right-of-use assets (note 14)	**1,177,236**	1,067,350
Amortization of intangible assets (note 15)	**814,938**	535,809
Depreciation of property and equipment (note 16)	**600,086**	740,143
	2,592,260	2,343,302

12 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2020	*2019*
	SR	*SR*
Governmental licenses and fees	**1,403,472**	1,033,959
Advertising expenses	**982,114**	1,243,996
Value added expenses	**730,437**	101,961
Professional and consulting fees	**514,463**	612,020
Services charges	**336,726**	1,924,071
Office supplies	**229,827**	257,332
Travel and transportation expenses	**221,246**	165,363
Donations	**210,000**	-
Utilities expenses	**164,914**	155,777
Repair and maintenance	**132,655**	62,526
Rent	**61,707**	33,000
Other expenses	**908,397**	862,820
	5,895,958	6,452,825

13 NET INVESTMENT IN ISLAMIC FINANCE RECEIVABLES

	2020	*2019*
	SR	*SR*
Gross investment in Islamic finance receivables	**1,168,016,782**	493,748,184
Less: unearned finance income	**(207,377,512)**	(86,239,777)
Investment in Islamic finance receivables (before allowance for expected credit losses on Islamic finance receivables)	**960,639,270**	407,508,407
Less: allowance for expected credit losses on Islamic finance receivables	**(28,913,912)**	(15,461,842)
Net investment in Islamic finance receivables	**931,725,358**	392,046,565

13 NET INVESTMENT IN ISLAMIC FINANCE RECEIVABLES (continued)

Analysed as follows:

Net investment in Islamic finance receivables, non-current	**539,544,935**	215,740,786
Net investment in Islamic finance receivables, current	**392,180,423**	176,305,779
	931,725,358	392,046,565

13.1 Movement in the allowance for expected credit losses on finance receivables is as follows:

	2020	*2019*
	SR	*SR*
At the beginning of the year	**15,461,842**	12,868,724
Provided during the year	**13,452,070**	2,593,118
At the end of the year	**28,913,912**	15,461,842

13.2 The Company's implicit rate of return on investment in Islamic finance receivables is in market rate range. These receivables are majorly secured against assets, personal guarantees, Kafala program and down payments. The Company's major activities for investment in finance receivables are in tawarroq and ijarah.

13.3 Investment in Islamic finance receivables mainly include Ijara and Tawaruq contracts amounting to SR 589.09 million and SR 578.93 million respectively (2019: SR 395.34 million and SR 98.40 million respectively).

13.4 The contractual rights and the titles of certain assets subject to the financing arrangements of Islamic financing receivables are under the name of Al Kifah Trading Company (a shareholder) amounting to SR 8.7 million (2019: SR 17 million). The shareholder waived rights over the assets and confirmed that the risks and rewards pertaining to the assets have been transferred to the Company.

13.5 At 31 December 2020, ijarah receivables include the Company's repossessed assets inventory for contracts having outstanding receivables amounting to SR 772 thousands (2019: nil).

13.6 Investment in Islamic finance leases includes the following balances due from related parties:

Related party	*Relationship*	***2020***	*2019*
		SR	*SR*
Al Kifah Contracting Company	Shareholder	**4,722,391**	-
Al Kifah for Building Material Company	Shareholder	**19,503,817**	17,295,167
Al Kifah Real Estate Company	Fellow subsidiary	**26,890,881**	23,240,398
Al Kifah Paper Products Company	Fellow subsidiary	**26,889,448**	23,217,963
Al Kifah Precast Company	Fellow subsidiary	**26,889,448**	23,217,963
Al-Kifah Holding Company Branch	Fellow subsidiary	**16,547,206**	18,003,601

Related parties' transactions are disclosed under note 25.

The Maturity of the gross investment in Islamic finance receivables as at 31 December 2020 is as follows:

	Gross investment in Islamic finance receivables	***Unearned lease finance income***	***Net investment in Islamic finance receivables***
	SR	***SR***	***SR***
No later than one year	**517,700,133**	**(96,605,798)**	**421,094,335**
One to two years	**259,326,065**	**(59,735,883)**	**199,590,183**
More than two years	**390,990,583**	**(51,035,831)**	**339,954,752**
	1,168,016,781	**(207,377,512)**	**960,639,270**

13 NET INVESTMENT IN ISLAMIC FINANCE RECEIVABLES (continued)

The Maturity of the gross investment in Islamic finance receivables as at 31 December 2019 is as follows:

	Gross investment in Islamic finance receivables	*Unearned lease finance income*	*Net investment in Islamic finance receivables*
	SR	*SR*	*SR*
No later than one year	237,500,324	(45,732,703)	191,767,621
One to two years	174,753,146	(22,422,983)	152,330,163
More than two years	81,494,714	(18,084,091)	63,410,623
	493,748,184	(86,239,777)	407,508,407

14 RIGHT-OF-USE ASSETS

	2020	*2019*
	SR	*SR*
Cost:		
At the beginning of the year	**3,370,703**	2,591,844
Additions	**-**	778,859
Disposals	**(12,870)**	-
At the end of the year	**3,357,833**	3,370,703
Accumulated depreciation:		
At the beginning of the year	**1,067,350**	-
Charge for the year (note 11)	**1,177,236**	1,067,350
At the end of the year	**2,244,586**	1,067,350
Net carrying amounts:		
At 31 December 2020	**1,113,247**	
At 31 December 2019		2,303,353

The following had been recognised in the statement of profit or loss and other comprehensive income:

	2020	*2019*
	SR	*SR*
Depreciation expenses for right-of-use assets	**1,177,236**	1,067,350
Expenses related to short-term/ low-value leases	**61,707**	33,000
Finance cost on lease liabilities	**51,480**	77,791
	1,290,423	1,178,141

15 INTANGIBLE ASSETS

Intangible balance represents software and licenses.

	2020	*2019*
	SR	*SR*
Cost:		
At the beginning of the year	**4,000,063**	3,160,067
Additions	**573,141**	839,996
At the end of the year	**4,573,204**	4,000,063
Accumulated amortisation:		
At the beginning of the year	**1,713,273**	1,177,464
Charge for the year (note 11)	**814,938**	535,809
At the end of the year	**2,528,211**	1,713,273
Net book value :		
At 31 December 2020	**2,044,993**	
At 31 December 2019		2,286,790

16 PROPERTY AND EQUIPMENT

	Leasehold Improvements	*Office furniture and fixtures*	*Computers*	*Total*
	SR	*SR*	*SR*	*SR*
Cost:				
At 1 January 2019	1,781,524	695,176	945,796	3,422,496
Additions	300,000	68,963	128,295	497,258
At 31 December 2019	2,081,524	764,139	1,074,091	3,919,754
Additions	8,604	142,027	376,701	527,332
Disposals	-	-	(727,304)	(727,304)
At 31 December 2020	**2,090,128**	**906,166**	**723,488**	**3,719,782**
Accumulated depreciation :				
At 1 January 2019	1,013,114	462,498	616,848	2,092,460
Charge for the year (note 11)	410,270	117,876	211,997	740,143
At 31 December 2019	1,423,384	580,374	828,845	2,832,603
Charge for the year (note 11)	337,142	86,405	176,539	600,086
Disposals	-	-	(724,720)	(724,720)
At 31 December 2020	**1,760,526**	**666,779**	**280,664**	**2,707,969**
Net book value:				
At 31 December 2020	**329,602**	**239,387**	**442,824**	**1,011,813**
At 31 December 2019	658,140	183,765	245,246	1,087,151

17 EQUITY INVESTMENTS

Based on the instructions of SAMA in the month of December 2017 a new entity was incorporated to register the leasing contracts in the Kingdom of Saudi Arabia called "Saudi for leasing registration" ("the Investee"). SAMA instructed all leasing companies and banks to contribute to the capital of the new investee. The Company contributed SR 892,850, towards 89,285 shares (2% of total shares) and paid the amount in December 2017. Investment has been classified as fair value through other comprehensive income (FVTOCI). Fair value pertains to level 3.

18 PREPAYMENTS AND OTHER RECEIVABLES

	2020	*2019*
	SR	*SR*
Prepayments	**1,014,027**	837,280
Insurance claims	**486,838**	2,169,719
Claims receivables from customers	**460,834**	1,097,096
Advance to suppliers	**455,708**	293,644
Others	**511,429**	7,985
	2,928,836	4,405,724

19 CASH AND CASH EQUIVALENTS

	2020	*2019*
	SR	*SR*
Bank balances	**105,446,985**	13,715,010

20 SHARE CAPITAL

The authorised, issued and paid up capital is SR 250 million as at 31 December 2020 consisting of 25 million shares (2019: SR 250 million consisting of 25 million shares) of SR 10 share. At 31 December 2020, corresponding to 16 Jumada Al-Ula 1442H, shareholders of the Company resolved to transfer their shares to Al Kifah Holding Company, the ultimate parent company. At 2 March 2021, corresponding to 18 Rajab 1442H, the company received no objection certificate from SAMA for the change in shareholding structure. Other legal formalities in this respect were in process at the issuance of these financial statements. Ownership percentage and amount of share capital are as follows:

	Ownership %		***Amount SR***	
Name of shareholders	***2020***	*2019*	***2020***	*2019*
Al Kifah Holding Company	**100%**	80%	**250,000,000**	200,000,000
International Developers Company	**0%**	5%	**-**	12,500,000
Al Kifah for Building Material Company	**0%**	5%	**-**	12,500,000
Al Kifah Trading Company	**0%**	5%	**-**	12,500,000
Al Kifah Contracting Company	**0%**	5%	**-**	12,500,000
	100%	100%	**250,000,000**	250,000,000

21 LOANS AND BORROWINGS

	2020	*2019*
	SR	*SR*
Loans and borrowings		
SAMA support program (note 21.1)	**458,843,525**	-
Tawaruq financing (note 21.2)	**155,984,016**	45,825,997
Social development bank financing (note 21.3)	**74,346,936**	57,900,734
Less: Modification gain on deferment (note 21.1)	**(6,465,222)**	-
Net loans and borrowings	**682,709,255**	103,726,731

21 LOANS AND BORROWINGS (continued)

Analyzed as follows:	***2020***	*2019*
	SR	*SR*
Non-current portion	**394,518,316**	41,197,316
Current portion	**288,190,939**	62,529,415
	682,709,255	103,726,731

21.1 During the year, the Company has signed an agreement with SAMA for deferred payments program amounting to SR 175.68 million, which is an interest free loan. The Modification gain on deferment includes an amount of SR 6.47 million, which is recorded under revenue from operations in the statement of profit or loss and other comprehensive income. Further, the Company has obtained additional funds from SAMA under loan guarantee program amounting SR 308.18 million to finance its activities. The loans are repayable in equal monthly instalments commencing from May 2020 with the final instalment due in November 2023. SAMA deferred payments program and loan guarantee program are carried at fair value using internal rate of return equivalent to the prevailing market rate.

21.2 The Company obtained Tawaruq financing facility form a local commercial bank to finance the purchase of assets for leasing services, Tawaruq loans are short-term and repayable within a year, however, management intends, and has the discretion to rollover the obligation amount for twelve months after the reporting period under the existing loan facility accordingly, management presented the extendable loan amount under non-current portion of loans and borrowings. The loan payable withing next 12 months is presented as current liability. Tawaruq loans carry financial charges at prevailing market borrowing costs plus SIBOR. These Tawaruq loans are secured by promissory notes issued by the shareholders. The Company is required to comply with certain covenants under the facility agreements which includes maintenance of certain leverage ratios. The Company had no breach of covenants during the period.

21.3 The Company obtained long-term loans from a governmental agent to finance the purchase of assets for leasing services for small and medium sized entities ("SMEs"). During the year, the Company signed agreements with Social Development Bank to defer all due instalments from March 2020 to March 2021 and a grace period for 6 months for a new loan obtained during the period. The loans are repayable in equal monthly instalments commencing from January 2019 with the final instalment due in March 2023. Accordingly, the portion of the loan payable before 1 January 2022 has been classified under current liabilities.

The loans received by the Company SDB carry special commission at rates significantly lower than the currently prevailing market rates. These loans carry a number of conditions, one of which is that these loans are to be used for providing loans to specific types/sectors of customers at discounted rates. The benefit being the impact of the “lower than market value” loans obtained by the Company has been identified and accounted for as “government grant” and has initially been recorded as income and such benefit is being recognised in statement of comprehensive income of the Company.

22 LEASES

Movement in lease liabilities is as follows:

	2020	*2019*
	SR	*SR*
At 1 January	**1,559,890**	2,591,844
Additions during the year	**-**	778,860
Finance costs for the year (note 9)	**51,480**	77,791
Payments during the year	**(1,359,139)**	(1,888,605)
At 31 December	**252,231**	1,559,890
Classified as:		
Current	**252,231**	1,114,730
Non-current	**-**	445,160
	252,231	1,559,890

Maturity analysis - contractual undiscounted cash flows

	2020	*2019*
	SR	*SR*
Less than 1 year	**259,000**	1,121,639
Later than one year to five years	**-**	496,639
	259,000	1,618,278

23 EMPLOYEES' DEFINED BENEFITS LIABILITIES

Post employments benefits

The management has carried out an exercise to assess the present value of its employees' defined benefits liabilities at 31 December in respect of employees' defined benefits liabilities under relevant local regulations and contractual arrangements. The following tables summaries the components of net benefit expense recognised in the statement of comprehensive income and balances reported in the statement of financial position:

Present value of end of service benefits (Statement of financial position)

Present value of employees' defined benefits liabilities	**4,506,717**	3,767,769

The following table summarizes the components of the net benefit expense recognized in the income statement and statement of comprehensive income and amounts recognized in the statement of financial position.

Net benefit expense recognised in income statement:	*2020*	*2019*
	SR	*SR*
Current service cost for the period	**719,861**	631,450
Interest cost on benefit obligation for the period	**114,288**	132,886
	834,149	764,336

23 EMPLOYEES' DEFINED BENEFITS LIABILITIES (continued)

The movement in employees' defined benefits liabilities is as follows:

	2020	*2019*
	SR	*SR*
As at 1 January	**3,767,769**	3,475,926
Current service cost	**719,861**	631,450
Interest cost (note 9)	**114,288**	132,886
Actuarial loss/(gain) (charged to other comprehensive income)	**301,513**	(7,321)
Payments during the year	**(396,714)**	(465,172)
As at 31 December	**4,506,717**	3,767,769

Actuarial loss/(gain) are due to:

Change in financial assumptions	**235,915**	(4,028)
Experience adjustments	**65,598**	(3,293)
	301,513	(7,321)

The principal assumptions used in determining employee benefit obligations for the Company's plans are shown below:

	2020	*2019*
Discount rate:	**2.5%**	3.0%
Future salary increase	**3.0%**	3.0%
Rate of employee turnover	**Moderate**	Moderate

A quantitative sensitivity analysis for significant assumption on the employees' terminal benefits as at reporting date is as shown below:

	2020	*2019*
	SR	*SR*
Increase in discount Rate 1%	**(309,362)**	(299,068)
Decrease in discount Rate - 1%	**355,669**	213,325
Increase in salary 1%	**350,719**	211,923
Decrease in salary -1%	**(311,230)**	(302,413)

The weighted average duration of the defined benefit obligation is 7.8 years (2019: 7.4 years). The expected maturity analysis of undiscounted defined benefit obligation is as follows (time in years):

	2020	*2019*
	SR	*SR*
1	**535,000**	474,000
2	**472,000**	416,000
3	**435,000**	367,000
4	**442,000**	339,000
5	**392,000**	346,000
6-10	**1,228,000**	1,198,000
Total	**3,504,000**	3,140,000

24 ACCOUNTS PAYABLE

Trade payables are non-interesting bearing and are normally settled on 30 to 120 days terms. For explanations on the Company's liquidity risk management processes, refer to note 30).

25 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include partners and entities controlled, jointly controlled or significantly influenced by such parties (affiliates). Pricing policies and terms of payments of transactions with related parties are approved by the Company's management. Following is the list of related parties of the Company:

Names of related parties	*Nature of Relationship*
Al Kifah Holding Company	Ultimate parent
Al Kifah Trading Company	Shareholder
Al Kifah for Building Material Company	Shareholder
Al Kifah Contracting Company	Shareholder
Almotaweroon company	Shareholder
Al Kifah Real Estate Company	Fellow subsidiary
Al Kifah Paper Products Company	Fellow subsidiary
Al Kifah Precast Company	Fellow subsidiary
Alkifah holding company branch	Fellow subsidiary
Al Kifah Information Technology	Fellow subsidiary

Following are the details of the major related party transactions occurred during the year:

Related party	***Nature of transactions***	***Amounts of transactions***	
		2020	*2019*
		SR	*SR*
Shareholders			
Al Kifah Holding Company	Value added tax paid on behalf of the Company	**4,327,776**	2,319,322
	Value added tax paid	**(5,442,292)**	(1,616,930)
	Advertising expenses	**302,163**	528,552
	Amount paid against advertising expenses	**(378,955)**	(434,900)
	Services provided	**3,445,133**	1,645,488
	Amounts paid against services	**(3,282,421)**	(1,761,777)
Al Kifah Contracting Company	Amount collected against Islamic financing receivables	**(324,950)**	-
	Financing	**4,956,862**	-
Al Kifah for Building Material Company	Amount collected against Islamic financing receivables	**(15,323,998)**	(11,586,903)
	Financing	**15,574,788**	2,680,000
	Heavy machinery and equipment sales financed by the Company	**104,826,755**	98,035,013
	Amount paid against machinery and equipment financed	**(109,590,506)**	(89,428,126)

25 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Following are the details of the major related party transactions occurred during the year (continued):

Related party	***Nature of transactions***	***Amounts of transactions***	
		2020	*2019*
		SR	*SR*
Shareholders (continued)			
Al Kifah Trading Company	Management fees received by the Company	**(120,000)**	(120,000)
	Refund of excess balance ,net	**-**	(18,000)
	Assets purchase for the purpose of leases	**2,237,623**	-
	Amount paid against assets purchased	**(1,978,822)**	-
Fellow subsidiaries			
Alkifah holding company branch	Amount collected against Islamic financing receivables	**(11,871,900)**	(9,487,848)
	Financing	**8,340,000**	-
	Amount due against construction of new office	**109,700**	345,550
	Amount paid against construction of new office	**-**	(300,003)
Al Kifah Real Estate Company	Amount collected against Islamic financing receivables	**(2,784,178)**	(2,659,722)
	Financing	**5,675,229**	25,000,000
	Amounts paid against rent	**(1,647,473)**	1,570,565
	Services provided	**1,985,213**	(384,936)
Al Kifah Paper Products Company	Amount collected against Islamic financing receivables	**(2,754,921)**	(2,458,333)
	Financing	**5,716,798**	25,000,000
	Services provided	**14,938**	**-**
Al Kifah Precast Company	Amount collected against Islamic financing receivables	**(2,754,921)**	(2,458,333)
	Financing	**5,716,798**	25,000,000
Al Kifah Information Technology	Information technology fee	**3,211,189**	1,244,085
	Amount paid against Information technology fee	**(3,413,771)**	(1,459,799)
Almotaweroon company	Amount due against construction of new office	**12,375**	-
	Amount paid against construction of new office	**(12,375)**	-

25 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The breakdown of amounts due from/to related parties are as follows:

<u>Amounts due from related parties - (presented under net investment in Islamic finance receivables note 13):</u>

	2020	*2019*
	SR	*SR*
Al Kifah Real Estate Company	**26,890,881**	23,240,398
Al Kifah Paper Products Company	**26,889,449**	23,217,963
Al Kifah Precast Company	**26,889,449**	23,217,963
Al Kifah for Building Material Company	**19,503,791**	17,295,167
Alkifah holding company branch	**16,547,204**	18,003,601
Al Kifah Contracting Company	**4,722,391**	-
	121,443,165	104,975,092

<u>Amounts due to related parties - (presented under current liabilities):</u>

	2020	*2019*
	SR	*SR*
Al Kifah for Building Material Company	**3,863,886**	8,627,637
Al Kifah Real Estate Company	**1,525,840**	1,188,099
Al Kifah Holding Company	**953,037**	1,981,634
Al Kifah Trading Company	**319,968**	181,167
Al Kifah Contracting Company	**155,250**	45,550
Al Kifah Paper Products Company	**14,938**	-
Al Kifah Information Technology Company	**-**	202,582
	6,832,919	12,226,669

Compensation and remuneration (including salaries and other benefits) for key management personnel is disclosed as follows:

	2020	*2019*
	SR	*SR*
Short-term employee benefit	**1,230,999**	1,892,918
Post-employment benefits	**171,341**	329,822
	1,402,340	2,222,740

Prices and terms of payments of the above transactions with related parties have been approved by Company's management.

26 ACCRUED EXPENSES AND OTHER LIABILITIES

	2020	*2019*
	SR	*SR*
Accrued expenses	**3,081,552**	1,465,359
VAT Liability	**209,510**	-
Advance from customers	**59,806**	3,698,059
Others	**149,669**	685,622
	3,500,537	5,849,040

27 ZAKAT

In March 2019, new Zakat Regulations were issued by GAZT under resolution No. 2215 dated 7/7/1440 (14 March 2019) (the "Zakat Regulations") which provided a new basis for calculation of Zakat for companies engaged in financing activities.

The Zakat base computed in accordance with the formula specified in the Zakat Regulations is also subject to thresholds for minimum and maximum liability.

	2020	*2019*
	SR	*SR*
Charge for the year	**461,707**	979,354
Prior period adjustments	**(121)**	-
	461,586	979,354

The significant components of zakat base for the Company are as follows:

	2020	*2019*
	SR	*SR*
Shareholders' equity	**271,028,938**	273,077,529
Liabilities	**701,474,046**	41,115,000
Total sources of fund	**972,502,984**	314,192,529
Total assets	**1,045,164,082**	416,737,443
Total assets not subject to zakat	**(544,607,838)**	(398,616,708)
Total assets subject to zakat	**500,556,244**	18,120,735
Assets not subject for zakat / Total Assets	**48%**	4%
Zakat base	**465,756,956**	13,661,838

The differences between the financial and the zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable results.

Movements in zakat provision

	2020	*2019*
	SR	*SR*
At the beginning of the year	**990,418**	469,135
Provided during the year	**461,586**	979,354
Paid during the year	**(990,297)**	(458,071)
At the end of the year	**461,707**	990,418

Zakat assessments

Zakat returns for the years 2016 through 2018 have been submitted to GAZT as part of Al Kifah Holding Company (referred to as the "Group") as part of these consolidated zakat returns and accordingly have obtained a zakat certificate valid till 30 January 2020. The Company is not liable for any additional liability related to those years. The zakat return for the year 2019 has been submitted, however, the assessment has not yet been raised by the GAZT.

Zakat has been computed based on the Company's understanding of the Zakat regulations enforced in the Kingdom of Saudi Arabia. The Zakat regulations in Saudi Arabia are subject to different interpretations and new Zakat regulations have been issued by the GAZT for financing companies. The assessments to be raised by the GAZT could be different from the declarations filed by the Company.

28 DIVIDENDS

During 2019, the shareholders approved distribution of cash dividends amounting to SR 13.84 million (SR 0.55 per share) which were distributed in the same year. No dividends distribution was made during 2020.

29 FAIR VALUES OF FINANCIAL INSTRUMENTS

At statement of financial position date all of the financial assets and financial liabilities are measured at amortised cost, except equity instrument which is classified under FVOCI and categorised under level 3 of fair value hierarchy.

Fair value of financial assets is not significantly differ from the carrying value included in the financial statements.

30 RISK MANAGEMENT

The Company's significant financial liabilities include, loans and borrowings, government grant and trade and other payables, and are initially measured at fair value and thereafter stated at their amortized cost. Financial assets comprises of cash and cash equivalents and net investment in Islamic finance receivables and are initially measured at fair value and thereafter stated at cost or amortized cost as reduced by allowance for expected credit losses and impairment, if any.

The Company is exposed to interest rate risk, liquidity risk, credit risk and currency risk. The Company's senior management is supported by a risk committee that advises on financial risks and the appropriate financial risk governance framework for the Company.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and commodity risk. Financial instruments affected by market risk include leasing activities, loans and borrowings.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Before entering into purchase and agency arrangements with banks, the Company is exposed to interest rate fair value risk on its financial assets to be sold. The Company monitors the market interest rate movements and negotiates the terms of the agreements with various banks and the majority of the receivables are sold to the banks. The Company has realized gains on sale of these financial assets.

The Company is also exposed to interest rate cash flow risk mainly on its short-term deposits. The average effective interest rate on short-term deposits is 0.57% (31 December 2019: 2.4 %).

As of 31 December 2020, the Company has loans from SAMA, Social Development Bank which are free-interest loans. The Company has a loan from a local bank bearing interest rate, an assumed increase of 100 basis points in profit/ interest rates would increase the Company's expenses for the year by SR 458,260 (2019: SR 207,160). A decrease of 100 basis points in profit/interest rates would have an equal and opposite effect.

Currency and commodity risk

The Company is not exposed to either currency nor commodity risks.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk on cash and cash equivalents and net investment in Islamic finance receivables. The Company has established procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collaterals such as down payments and personal guarantees. individual Islamic financing contracts generally are for term not exceeding sixty-month.

Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular segment of customers.

The Company manages concentration of credit risk exposure through diversification of activities. However, the Company mitigates its credit risk through evaluation of credit worthiness and by obtaining promissory notes and by retaining the title of the vehicle leased out. For certain types of customers, the maximum credit limits are defined. An allowance expected credit loss is maintained at a level which, in the judgment of management, is adequate to provide for impairment losses on delinquent receivables.

30 RISK MANAGEMENT (continued)

Credit risk (continued)

All investment in Islamic finance receivables are secured mainly through promissory notes and by retaining the title of the vehicle leased out and yield a fixed rate of commission for each contract. The title of the vehicles sold under finance lease agreements is held in the name of the Company as collateral to be repossessed, in case of default by the customer.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Expected credit loss assessment for investment in Islamic finance receivables

The investment in Islamic finance receivables generally exposed to significant credit risk, therefore, the Company has established a number of procedures to manage credit risk exposure including evaluation of the lessees' credit worthiness, formal credit approvals, assigning credit limits obtaining collateral and personal guarantees.

The Company follows a credit classification mechanism, primarily driven by the day's delinquency as a tool to manage the quality of credit risk of investment in Islamic finance receivables. Further, the Company has categorised its investment in Islamic finance receivables into sub-categorised on the basis of similar credit risk characteristic. Exposures within each credit risk category are segmented by industrial classification and an ECL is calculated for each segment based on the delinquency status and actual credit loss experience over the past years. These rates are multiplied by scaler factors to reflect differences between economic conditions, current conditions and the Company's view of economic conditions over the expected lives of the investment in Islamic financing receivables.

Set out below is the information about the credit risk exposure on the Company’s investment in Islamic finance receivables using a provision matrix at the reporting date:

	31 December 2020				
	Weighted average loss rate	***Gross carrying amount***	***Net carrying amount***	***Loss allowance***	***Credit impaired***
Corporates & SMEs	**0.90%**	**829,126,330**	**725,568,564**	**6,808,170**	**No**
Retail	**0.70%**	**287,164,484**	**193,888,892**	**1,371,571**	**No**
Doubtful	**55.3%**	**47,311,574**	**37,254,805**	**20,612,662**	**No**
Loss	**3.40%**	**4,414,394**	**3,621,810**	**121,509**	**Yes**
		1,168,016,782	**960,334,071**	**28,913,912**	

	31 December 2019				
	Weighted average loss rate	*Gross carrying amount*	*Net carrying amount*	*Loss allowance*	*Credit impaired*
Corporates & SMEs	2.0%	340,179,710	295,233,137	6,023,617	No
Retail	2.560%	127,139,317	90,367,188	2,313,730	No
Doubtful	27.24%	22,422,156	17,757,284	4,836,930	No
Loss	68.446%	4,007,001	3,342,165	2,287,565	Yes
		493,748,184	406,699,774	15,461,842	

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 the bank facilities and shareholders' support are available.

30 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

As of 31 December 2020

	Within 1 year	***1 to 5 years***	***More than 5 years***	***Total***
	SR	***SR***	***SR***	***SR***
Accounts payable	**55,631,399**	**-**	**-**	**55,631,399**
Amounts due to related parties	**6,832,919**	**-**	**-**	**6,832,919**
Loans and borrowings	**288,190,939**	**394,518,316**	**-**	**682,709,255**
Lease liability	**259,000**	**-**	**-**	**259,000**
	350,914,257	**394,518,316**	**-**	**745,432,573**

As of 31 December 2019

	Within 1 year	*1 to 5 years*	*More than 5 years*	*Total*
	SR	*SR*	*SR*	*SR*
Accounts payable	13,960,939	-	-	13,960,939
Amounts due to related parties	12,226,669	-	-	12,226,669
Loans and borrowings	69,166,662	38,194,454	-	107,361,116
Lease liability	496,639	1,121,639	-	1,618,278
	95,850,909	39,316,093	-	135,167,002

Changes in liabilities arising from financing activities

As of 31 December 2020

	1 January 2020	***Cash outflow***	***Others/Cash inflow***	***31 December 2020***
	SR	***SR***	***SR***	***SR***
Lease liabilities	**1,559,890**	**(1,359,139)**	**51,480**	**252,231**
Loans and borrowings	**107,353,780**	**(60,426,460)**	**654,546,726**	**701,474,046**
Total liabilities from financing activities	**108,913,670**	**(61,785,599)**	**654,598,206**	**701,726,277**

As of 31 December 2019

	1 January 2019	*Cash outflow*	*Others/Cash inflow*	*31 December 2019*
	SR	*SR*	*SR*	*SR*
Lease liabilities	2,591,844	(1,888,607)	856,651	1,559,888
Loans and borrowings	39,322,718	(38,354,977)	102,758,990	103,726,731
Dividends	-	(13,842,390)	13,842,390	-
Total liabilities from financing activities	41,914,562	(54,085,974)	117,458,031	105,286,619

30 RISK MANAGEMENT (continued)

Capital management

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure. The Company manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders.

No changes were made in objectives, policies or processes for managing capital during the year ended 31 December 2020

The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Regulations for Companies and SAMA. SAMA requires Finance Companies engaged in financing other than real estate, to not exceed aggregate financing to capital ratio of three times. However, during the year, the Company has obtained exemption from SAMA to exceed the three times ratio limit.

	2020	*2019*
	SR	*SR*
Aggregate financing to capital ratio (Total financing (net investment in Islamic finance receivables) divided by total shareholders' equity)	**3.42 times**	1.45 times

31 SAMA SUPPORT PROGRAMS AND INITIATIVES

Private Sector Financing Support Program ("PSFSP")

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

- Deferred payments program;
- Funding for lending program;
- Loan guarantee program; and
- Point of sale ("POS") and e-commerce service fee support program.

As part of the deferred payments program launched by SAMA, the Company was required to defer payments for a total of nine months (original deferment for six months was followed on by a further extension of three months) on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. the Company effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September for a period of six months and then further deferring the installments falling due within the period from 15 September 2020 to 14 December 2020 for a period of three months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of net financing income.

Further to the above, SAMA on 8 December 2020 extended the deferred payment program until 31 March 2021. the Company has effected the payment reliefs by deferring the instalments falling due within the period from 15 December 2020 to 31 March 2021 without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in the Company recognizing an additional modification loss of SR 12.26 million.

As a result of the above program and related extensions, the Company has deferred payments totaling to SR 175.68 million on MSMEs portfolio. The total exposures against these customers amounted to SR 180.81 million as at the year end.

The Company generally considered the deferral of payments in hardship arrangements as an indication of a SICR but the deferral of payments under the current COVID-19 support packages have not, in isolation, been treated as an indication of SICR.

31 SAMA SUPPORT PROGRAMS AND INITIATIVES (continued)

Private Sector Financing Support Program ("PSFSP") (continued)

The Company continues to monitor the lending portfolios closely and reassess the provisioning levels as the situation around COVID-19 evolves.

In order to compensate the related cost that the Company is expected to incur under the SAMA and other public authorities program, the Company has received in aggregate SR 175.68 million of profit free deposit in number of tranches from SAMA during the year, with varying maturities. Management had determined based on the communication from SAMA, that the profit free deposits primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 8.84 million which has been recognised in the statement of income. The management has exercised certain judgements in the recognition and measurement of this grant income.

As at 31 December 2020, the Company has participated in SAMA's facility guarantee programs. The Company has received SR 308.18 million from SAMA for providing concessional financing to eligible MSMEs under Facility Guarantee program. As the guarantee under the Kafala program form integral part of the financing arrangement; therefore, the funding received from SAMA does not qualifies for government grant and is recognized as financial liability under IFRS 9, The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with financial instruments requirements. This resulted in a total income of SR 20.20 million, of which SR 3.62 million has been recognized in the statement of income for the year ended 31 December 2020 and with the remaining amount deferred.

32 COMPARATIVE FIGURES

Certain of the prior year numbers have been reclassified to conform with the presentation in the current year.

33 EVENTS AFTER THE REPORTING DATE

In the opinion of management, there have been no further significant subsequent events since the year ended 31 December 2020 that would have a material impact on the financial position of the Company as reflected in these financial statements.