SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2020
Together with the
INDEPENDENT AUDITOR'S REPORT

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
For the year ended 31 December 2020

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Independent auditor's report

To the shareholders of Saudi Home Loans Company

Opinion

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

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

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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Independent auditor's report

To the shareholders of Saudi Home Loans Company (continued)

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

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

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

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

For KPMG Al Fozan & Partners
Certified Public Accountants

Dr. Abdullah Hamad Al Fozan
License no. 348

20 Rajab 1442H
Corresponding to: 4 March 2021

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Certified Public Accountants
KPMG Al Fozan & Partners

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(Amounts in Saudi Riyals)

	Note	**31 December 2020**	31 December 2019
ASSETS			
Cash and cash equivalents	*4*	**142,327,982**	54,199,589
Prepaid expenses and other assets, net	*5*	**67,771,291**	64,263,400
Advances to property owners	*6*	**6,773,991**	2,392,568
Due from related parties	*7*	**633,377**	765,379
Investment	*8*	**892,850**	892,850
Investments in finance lease, net	*9*	**4,199,138,508**	4,238,416,012
Deferred origination fees	*10*	**22,027,601**	25,791,599
Other real estate	*11*	**8,656,926**	6,963,475
Right-of-use asset	*12*	**3,805,573**	6,309,047
Property and equipment, net	*13*	**5,272,141**	4,767,583
Deferred tax assets	*18*	**4,837,338**	4,563,723
Intangible assets, net	*14*	**2,499,923**	3,157,336
Total assets		**4,464,637,501**	4,412,482,561
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable	*16*	**8,106,378**	50,593,077
Accrued expenses and other liabilities	*17*	**9,325,716**	9,096,342
Advance lease rentals		**4,396,874**	7,496,185
Lease liability	*12*	**3,841,748**	5,929,977
Provision for zakat and income tax	*18*	**24,644,795**	27,978,017
Tawarruq financing facilities	*19*	**2,819,883,777**	2,801,922,613
End of service benefits liability	*20*	**8,371,800**	9,376,906
Total liabilities		**2,878,571,088**	2,912,393,117
Equity			
Share capital	*21*	**1,000,000,000**	1,000,000,000
Statutory reserve	*22*	**106,160,070**	97,648,519
Other reserves		**1,157,460**	296,000
Retained earnings		**478,748,883**	402,144,925
Total equity		**1,586,066,413**	1,500,089,444
Total liabilities and equity		**4,464,637,501**	4,412,482,561

The accompanying notes from (1) to (31) are an integral part of these financial statements.

These financial statements were approved by the Board of Directors of the Company on 25 February 2021 and have been signed on its behalf by the following:

Chief Executive Officer

Chief Financial Officer

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF INCOME
For the year ended 31 December 2020
(*Amounts in Saudi Riyals*)

	Notes	2020	2019
Lease finance income		**290,114,950**	298,571,687
Service fees, net	*15*	**7,298,316**	8,782,622
Application and evaluation fee income		**5,273,681**	4,014,306
Other income		**655,474**	--
Total operating income		**303,342,421**	311,368,615
Finance charges	*19*	**93,167,534**	137,200,554
General and administrative expenses	*23*	**93,687,523**	71,862,721
Provision for expected credit losses	*5, 9*	**7,500,431**	11,223,703
Selling and marketing expenses	*24*	**11,410,348**	12,356,289
Total operating expenses		**205,765,836**	232,643,267
Net income before zakat and income tax		**97,576,585**	78,725,348
Zakat and income tax expense for the current year	*18*	**(12,734,691)**	(11,727,305)
Zakat for the prior years	*18*	**--**	(12,831,866)
Deferred tax	*18*	**273,615**	495,047
		(12,461,076)	(24,064,124)
Net income after zakat and income tax		**85,115,509**	54,661,224

The accompanying notes from (1) to (31) are an integral part of these financial statements.

These financial statements were approved by the Board of Directors of the Company on 25 February 2021 and have been signed on its behalf by the following:

Chief Executive Officer

Chief Financial Officer

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020
(Amounts in Saudi Riyals)

	Note	**2020**	2019
Net income after zakat and income tax		**85,115,509**	54,661,224
Other comprehensive income			
Item that cannot be reclassified to statement of income			
Actuarial gains / (losses) on end of service benefits	*20*	**861,460**	(110,970)
Total comprehensive income for the year		**85,976,969**	54,550,254

The accompanying notes from (1) to (31) are an integral part of these financial statements.

These financial statements were approved by the Board of Directors of the Company on 25 February 2021 and have been signed on its behalf by the following:

Chief Executive Officer

Chief Financial Officer

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2020
(Amounts in Saudi Riyals)

		For the year ended 31 December 2020				
	Note	**Share capital**	**Statutory reserve**	**Other reserve**	**Retained earnings**	**Total equity**
Balance at 1 January 2020		**1,000,000,000**	**97,648,519**	**296,000**	**402,144,925**	**1,500,089,444**
Net income for the year		--	--	--	**85,115,509**	**85,115,509**
Actuarial gains for end of service benefits	*20*	--	--	**861,460**	--	**861,460**
Total comprehensive income for the year		--	--	**861,460**	**85,115,509**	**85,976,969**
Transfer to statutory reserve	*22*	--	**8,511,551**	--	**(8,511,551)**	--
Balance at 31 December 2020		**1,000,000,000**	**106,160,070**	**1,157,460**	**478,748,883**	**1,586,066,413**

		For the year ended 31 December 2019				
	Note	Share capital	Statutory reserve	Other reserve	Retained earnings	Total equity
Balance at 1 January 2019		1,000,000,000	92,182,397	406,970	352,949,823	1,445,539,190
Net income for the year		--	--	--	54,661,224	54,661,224
Actuarial losses for end of service benefits	*20*	--	--	(110,970)	--	(110,970)
Total comprehensive (loss) / income for the year		--	--	(110,970)	54,661,224	54,550,254
Transfer to statutory reserve	*22*	--	5,466,122	--	(5,466,122)	--
Balance at 31 December 2019		1,000,000,000	97,648,519	296,000	402,144,925	1,500,089,444

The accompanying notes from (1) to (31) are an integral part of these financial statements.

These financial statements were approved by the Board of Directors of the Company on 25 February 2021 and have been signed on its behalf by the following:

Chief Executive Officer

Chief Financial Officer

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(Amounts in Saudi Riyals)

	Notes	2020	2019
OPERATING ACTIVITIES			
Net income before zakat and income tax		**97,576,585**	78,725,348
Adjustments to reconcile net income to net cash generated from operating activities:			
Depreciation and amortisation	*23*	**5,201,437**	5,326,776
Amortisation of deferred origination fees	*10*	**3,975,926**	4,127,500
Provision for expected credit losses	*5, 9*	**7,500,431**	11,223,703
Provision for end of service benefits	*20*	**1,887,050**	1,879,114
Financial charges for lease liability	*12*	**235,607**	527,396
Net (increase) / decrease in operating assets:			
Prepaid expenses and other assets, net		**(6,804,375)**	(26,160,954)
Due from related parties		**132,002**	131,868
Advances to property owners		**(4,381,423)**	3,518,718
Investments in finance lease		**33,380,106**	(63,551,112)
Net increase / (decrease) in operating liabilities:			
Accounts payable		**(42,486,698)**	19,655,176
Accrued expenses and other liabilities		**229,373**	2,588,865
Advance lease rentals		**(3,099,311)**	(282,364)
Net cash from operations		**93,346,710**	37,710,034
Zakat and income tax paid	*18*	**(16,067,913)**	(32,995,050)
End of service benefits paid	*20*	**(2,030,696)**	(1,203,494)
Deferred origination fees paid	*10*	**(211,928)**	(108,863)
Net cash generated from operating activities		**75,036,173**	3,402,627
INVESTING ACTIVITIES			
Purchase of property and equipment	*13*	**(1,550,654)**	(1,677,378)
Purchase of intangible assets	*14*	**(766,440)**	(1,400,881)
Net cash used in investing activities		**(2,317,094)**	(3,078,259)
FINANCING ACTIVITIES			
Additions in Tawarruq financing facilities	*19*	**234,831,389**	365,486,400
Repayment of Tawarruq financing facilities	*19*	**(216,870,225)**	(387,801,948)
Payment of principal portion of lease liability	*12*	**(2,551,850)**	(3,452,565)
Net cash generated from / (used in) financing activities		**15,409,314**	(25,768,113)
Net increase / (decrease) in cash and cash equivalents		**88,128,393**	(25,443,745)
Cash and cash equivalents at beginning of the year		**54,199,589**	79,643,334
Cash and cash equivalents at end of the year		**142,327,982**	54,199,589
Supplemental cash information			
Lease finance income received		**289,973,019**	296,527,469
Financing charges paid		**89,669,520**	136,413,453
Supplemental non-cash information			
Capital work in progress transferred to intangible assets and property and equipment	*13, 14*	**1,947,258**	2,629,704
Investments in finance lease transferred to other real estate" account	*11*	**11,171,633**	4,133,790

The accompanying notes from (1) to (31) are an integral part of these financial statements.

1. THE COMPANY AND PRINCIPAL ACTIVITIES

Saudi Home Loans Company ("the Company") is a Saudi closed joint stock company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration no. 1010241934 dated 22 Dhul Al Hijjah 1428H (corresponding to 1 January 2008). The Company operates under Saudi Arabian General Investment Authority license no: 102030072425-01 dated 23 Rajab 1430H (corresponding to 16 July 2009); also the Company is regulated and licensed by the Saudi Arabian Monitory Authority ("SAMA") license no: 14 / A SH /201403 dated 27 Rabi Al-Thani 1435H (corresponding to 27 Feb 2014). The address of the Company is as follows:

Saudi Home Loans Company
P.O. Box 27072
Riyadh 11417
Kingdom of Saudi Arabia

The principal activities of the Company is to finance the purchase of houses and residential land and apartments, financing of real estate properties that are developed by all companies operating in the real estate development and financing the establishment of commercial and industrial projects, except in Makkah and Madinah.

2. BASIS OF PREPARATION

a) *Statement of compliance*

The financial statements of the Company have been prepared:

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

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

b) *Basis of measurement and presentation*

These financial statements have been prepared on a historical cost basis, except for the equity investment which is measured at fair value through other comprehensive income ("FVOCI") and end of service benefits liability which is measured at present value of future obligations using the projected unit credit method.

The statement of financial position is presented in the order of liquidity.

c) *Functional and presentation currency*

These financial statements are presented in Saudi Riyals, which is the functional and presentation currency of the Company. The figures in these financial statements are rounded to the nearest Saudi Riyal.

2. BASIS OF PREPARATION (CONTINUED)

d) Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncement issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its 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 advice and expectations of future events that are believed to be reasonable under the circumstances.

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government, 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. 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, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note to these financial statements.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

Significant areas where management have used estimates, assumption or exercised judgement are as follows:

- Provision for expected credit loss on investments in finance lease, and insurance claims receivable on non-performing decease-case leases (Notes 5 and 9)

The measurement of ECL under IFRS 9 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.

2. BASIS OF PREPARATION (CONTINUED)

d) Critical accounting judgements, estimates and assumption (continued)

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

1. The selection of an estimation technique or modelling methodology, covering below key judgements and assumptions:

   a) The Company's model, which assigns Probability of Default ("PD");
   b) The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
   c) The segmentation of financial assets when their ECL is assessed;
   d) Development of ECL models, including the various formulas; and
   e) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2. The selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs.

- Fair value measurement (Note 26)
- End of service benefits liability (Note 20)
- Valuation of other real estate assets (Note 11)

3. SIGNIFICANT ACCOUNTING POLICIES

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

A. Change in accounting policies

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

a) New IFRS Standards, interpretations and amendments adopted by the Company

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

Standard / Amendments	***Description***
Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to References	Conceptual Framework in IFRS Standards.

(Amounts in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Change in accounting policies (continued)

b) Accounting Standards issued but not yet effective

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

Standard / Amendments	***Description***	***Effective from periods beginning on or after the following date***
Amendment to IFRS 16	COVID-19-Related rent concessions	1 June 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023

B. Financial instruments

Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL. As at 31 December 2020 and 2019, the Company does not have Financial assets at FVTPL.

- **Financial assets at amortized cost**

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

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

- **Financial assets at FVOCI**

  Equity Instruments: On initial recognition, for an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial instruments (continued)

Business model assessment

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial instruments (continued)

Classification of financial liabilities

The Company classifies its financial liabilities as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective interest rate ("EIR").

Derecognition

i. Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. Financial assets originated by the Company and subsequently disposed-off to third parties are derecognised when the rights to receive the contractual cash flows and substantially all of the risks and rewards of ownership of the financial asset are transferred. An intangible asset is recognised and classified as servicing rights under agency agreements in respect of any obligation to service the transferred lease whereby the servicing fee adequately covers the related costs. These assets are accounted for in accordance with accounting policy on intangible assets. The resulting gain or loss on the transaction is recognized in the statement of profit and loss and other comprehensive income under income from agency arrangements.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of

a. the consideration received (including any new asset obtained less any new liability assumed); and
b. any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

ii. Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Modification of financial assets and financial liabilities

i. Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized with the difference recognized as a derecognition gain or loss and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not resulting de-recognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

ii. Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

Expected Credit Losses ("ECL")

The Company recognizes provision for ECL on the following financial instruments:

- Investments in finance lease; and
- Insurance claims receivable on non-performing decease-case leases.

No impairment loss is recognized on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for other financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portions of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive); and
- 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 flows.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial instruments (continued)

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 derecognized 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; and

- If the expected restructuring will result in de-recognition 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 de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

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

A lease 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.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets.

Write-off

Investments in finance lease and insurance claims receivable on non-performing decease-case leases 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. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment charge for credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial instruments (continued)

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral is primarily in the form of real estate. The Company's accounting policy for collateral assigned to it through its lending arrangements is in accordance with IFRS 9. Collateral, unless repossessed, is not recorded on the Company's statement of financial position.

However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis.

To the extent possible, the Company uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued by independent valuers appointed by the Company.

Collateral repossessed

The Company's accounting policy relating to collateral repossessed is in accordance with IFRS 9. The Company policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the Company policy.

C. Income / expense recognition

Income from investments in finance lease contracts and financing charges are recognized in interest or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the amortized cost of the financial instrument.

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

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

D. Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and balances with local banks having sound credit rating.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Investments in finance lease

Investments in finance lease represents net investment in Ijarah leasing contracts which are receivable from customers on account of finance leases. Ijarah is an agreement whereby the Company, acting as a lessor, purchases 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.

All leased properties are under the Company's name, except for those where the ownership has been transferred to Arab National Bank (a shareholder) in accordance with the terms of the facilities agreements for Tawarruq financing facilities (refer to Note 19), and for those where the ownership has been kept under the name of Kingdom Installment Company (a shareholder) as a custodian in accordance with the custodian agreement. The contract signed with customer represents an Ijarah contract with irrevocable promises to transfer the ownership, where the legal title of the asset will be passed to the lessee once all Ijarah instalments are settled.

Gross investments in finance lease include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases.

Recognition

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognised at the commencement of the lease term are determined.

The commencement of the lease is considered to be the date when the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

F. Application and evaluation fee income

Application and evaluation fee income are charged when the customer submits his application for evaluation to qualify for lease financing. Evaluation fee is non-refundable while application is refundable subject to the success of the evaluation. Application and evaluation fee income are recognised as the transaction is completed or the service, is provided.

Related fees and commission expense are expensed as the transaction is completed or the service is received.

G. End of service benefits

The Company operates an end of service benefit plan for its employees based on prevailing Saudi Labour laws. The liability is being accrued based on projected unit credit method. Employees' end of service liability is estimated using average service life of employees, contractual retirement age and historical average salary increments. The liability is discounted using appropriate government bond rate in line with the requirements of IAS 19.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. End of service benefits (continued)

IAS 19 – "Employee Benefits" – amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. For details of assumptions and estimate, please refer to Note 20.

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

Past service cost are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs.

Interest cost is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine-settlements; and
- Net interest expense or income.

H. Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the company. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease.

The estimated useful lives of the principal classes of assets are as follows:

	Rate
Leasehold improvements	10%
Motor vehicles	25%
Furniture, fixture and office equipment	10%-25%
Computers	25%-33.3%

Depreciation is charged using the straight-line method over its estimated useful life, at the rates specified above, after taking into account residual value. Depreciation on additions is charged from the month the assets are available for use. Gains / losses on disposal of property and equipment, if any, are taken to the statement of comprehensive income in the period in which they arise. Assets having an indefinite useful life are stated at acquisition cost less accumulated impairment losses, if any. The assets residual values, useful lives and methods are reviewed at each reporting date and adjusted, if appropriate, in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Other real estate

The Company, in the ordinary course of business, acquires / retains certain real estate against settlement of the investment in finance lease. Such real estate are considered as assets held for sale and are initially stated at the lower of net realisable value of the investment in finance lease and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate.

Subsequent to initial recognition, any subsequent write down to fair value less costs to sell, are charged to the statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the statement of income. Gains or losses on disposal of these properties are recognised in the statement of income.

J. Intangible assets

Intangible assets that are acquired by the Company and have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment.

Intangible assets are amortised on a straight-line basis in the statement of income over their estimated useful lives from the date that they are available for use.

Intangible assets comprise of computer software and their estimated useful life for the current and comparative years is 3-5 years. Amortization method and useful life is reviewed at least end of each reporting period.

K. Impairment of non - financial assets

An assessment is made at each statement of financial position date to determine 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 cash-generating units' ("CGU") fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group 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. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

L. Accounting for leases

Right-of-use asset / lease liability

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Accounting for leases (continued

Right of use assets

The Company applies cost model, and measures right of use asset at cost:

a. less any accumulated depreciation and any accumulated impairment losses; and
b. adjusted for any re-measurement of the lease liability for lease modifications.

Lease liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor. Subsequent to the commencement date, the Company measures the lease liability by:

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

M. Deferred origination fees

Deferred origination fees comprises of the unamortised portion of commission paid to a shareholder for deals originated through the use of infrastructure, resources and client base of the shareholder. This fee is amortized using the effective interest method over the period of the respective lease contracts.

N. Advance lease rental

Advance lease rental includes rent received from customers in advance, security deposits and unapplied receipts from the customers.

O. Accrued expenses and other liabilities

Accrued expenses and other liabilities include employee related cost, maintenance commitments and legal consultation fees.

P. Other provision

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and 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. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimates.

Q. Proposed dividend and transfer between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the statement of financial position date are considered as non-adjusting events and are disclosed in the financial statements in the year in which they are approved / transfers are made.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Accounting for zakat and income tax

Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment ("the Interpretation")

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

Deferred tax

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

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in statement of income, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Accounting for zakat and income tax (continued)

Zakat

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

S. Transactions with related parties

The Company has related party relationships with related companies, associated companies, directors and key management personnel and entities over which the directors or key management personnel are able to exercise significant influence. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are disclosed in the relevant notes.

T. Foreign currency transactions

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of comprehensive income.

U. Expenses

General and administrative expenses are expenses related to the day-to-day operations of the business including rent, insurance, utilities and salaries. The Company follows accrual basis of accounting to record the general and administrative expenses and recognised as expenses in the statement of income in the period in which they are incurred. Expenses that are deferred for more than one financial period are allocated to expenses over such periods using historical cost.

Sales and marketing expenses excluding compensation cost are those expenses that relates to sales and marketing representatives.

V. Value Added Tax ("VAT")

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

W. Servicing rights under agency arrangements

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

(Amounts in Saudi Riyals)

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and current account balances with bank.

	2020	2019
Cash on hand	**22,000**	22,500
Bank current accounts	**142,305,982**	54,177,089
	142,327,982	54,199,589

5. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprise of the following:

	Note	**2020**	2019
Insurance claims receivable on decease-case leases, net	*5.1*	**34,459,222**	24,013,559
VAT receivable		**12,412,000**	22,791,195
Legal claim		**8,862,577**	1,018,356
Prepaid Insurance		**1,091,924**	43,447
Prepaid financing facility fees (GIB)		**3,510,625**	862,500
Advance tax		**3,849,870**	3,783,371
Due from REDF	*5.2*	**2,882,103**	9,354,696
Prepaid software maintenance		**1,098,044**	450,630
Prepaid financing facility fees (IFC)		**1,096,504**	1,409,800
Sijil registration charges		**419,400**	718,200
Employees' advances and receivables		**132,999**	130,818
Others		**1,168,600**	1,180,917
		70,983,868	65,757,489
Allowance for provision for legal claim		**(3,212,577)**	(1,494,089)
		67,771,291	64,263,400

5.1 The insurance claims receivable on decease-case lease, net is comprised of the following:

	2020	2019
Insurance claims receivable on decease-case lease	**49,854,017**	36,111,870
Allowance for provision for ECL	**(15,394,795)**	(12,098,311)
	34,459,222	24,013,559

All insurance claims receivable against non-performing decease-case leases are classified as stage 3 in accordance with IFRS 9.

5.2 The due from REDF balance represents the Company's claim from REDF. These are down payments for the properties which the Company have paid for in advance on behalf of REDF which await reimbursement.

6. ADVANCES TO PROPERTY OWNERS

This balance represents the amounts of certified cheques issued under the property owners' name, for the purchase of properties of the Company's Ijarah contracts (approved deals) and for which the transfer of title deeds, in the name of the Company, is in process. These certified cheques are submitted by official Company representatives directly at the Registration Office at the time of title deed transfer. Risk and reward of such Ijarah contracts are not transferred as at the date of statement of financial position.

(Amounts in Saudi Riyals)

7. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be done on the same terms, conditions and amounts as transactions between unrelated parties.

The Company's shareholders and all their affiliates are considered as related party of the Company. In the ordinary course of business, the Company enters into transactions with its related parties, which are based on prices and contract term approved by the Company's management and on an agreed basis with these related parties:

Name	**Relationship**
Arab National Bank (ANB)	Shareholder
Dar Al Arkan	Shareholder
International Financial Corporation (IFC)	Shareholder
Kingdom Instalment company	Shareholder
Tharwat Alasool Real Estate Company	Affiliate

The significant related party transactions during the year are as follows:

	2020	2019
Tawaruq financing charges (ANB)	**62,159,970**	103,241,287
Residential unit purchased (Dar Alarkan)	**16,836,190**	20,038,669
Service fees, net	**7,298,316**	8,782,622
Tawaruq financing charges (IFC)	**6,317,122**	10,059,030
Deferred origination fees (Note 10)	**211,928**	108,864
Rent charged by an affiliate	**2,179,940**	2,179,940

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

	2020	2019
Loan obtained from a shareholder (ANB)	**1,832,298,936**	1,900,010,120
Loan obtained from a shareholder (IFC)	**140,784,894**	172,186,266
Deferred origination fees (Note 10)	**22,027,601**	25,791,599
Prepaid financing facility fees (IFC)	**1,096,504**	1,409,800
Due from related party related to service fees (ANB)	**633,377**	765,379

Compensation for Key Management Personnel ("KPM")

KMP are those having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Company's KMP includes the Board of Directors (including executive and non-executive directors) and selected key employees who meet the above criteria.

Close family members ("CFMs") of KMP are those family members who may be expected to influence or be influenced by that KMP in their dealings with the Company. CFMs may include the domestic partners and children of KMP, the children of KMP's domestic partner and parents, grandparents, brothers and sisters, grandchildren and other dependents of KMP and the KMP's domestic partner.

(Amounts in Saudi Riyals)

7. RELATED PARTY TRANSACTIONS (CONTINUED)

The compensation details of Company's KMP is provided below:

	2020	2019
Salaries	**2,545,959**	2,108,571
End of service benefits	**580,844**	175,714
Other allowances	**1,733,382**	799,825
	4,860,185	3,084,110

8. INVESTMENT

Article 18/1 of the financial leasing law issued by royal decree no. M/48 dated 13/08/1433, corresponding to 7 July 2012, states that "subject to the provision of the Company's law, a joint stock company or more shall be established with licence from SAMA, whose purpose is to register leasing contracts.

Pursuant to Article 18/1 of the financial leasing law, Saudi Financial Lease Contract Registry Company ("SIJIL") was established on 3/2/1439, corresponding to 23 October 2017, under CR No. 1010612415, and SAMA approval no. 381000124076 dated 23/12/1438, corresponding to 14 September 2017.

This Company has been set up by SAMA as a means to further regulate the market and facilitate transfer of leases between suppliers of finance and counterparties. SIJIL has 700,000 shares of SR 10 each. These 700,000 shares have been divided between finance lease companies registered and operating in Saudi Arabia. On 17 December 2017, Saudi Home Loans Company purchased 89,285 shares at SR 10 each, amounting to SR 892,850.

In 2019, the SIJIL has started its operations and accordingly started charging the Company registration charges at SR 450 per deal.

As at 1 January 2018, with the implementation of IFRS 9, the Company has elected to classify this equity investment as FVOCI. As at 31 December 2020, the carrying value of this investment is not materially different to its fair value.

9. INVESTMENTS IN FINANCE LEASE, NET

This balance represents net investments in finance lease as summarized below:

	2020	2019
Minimum lease payments		
Performing leases	**6,486,242,349**	6,627,877,566
Non-performing leases	**180,698,409**	292,442,761
Investments in finance lease - gross	**6,666,940,758**	6,920,320,327
Less: Unearned finance income	**(2,385,371,981)**	(2,603,677,993)
Investments in finance lease before impairment	**4,281,568,777**	4,316,642,334
Less: Allowance for expected credit losses	**(82,430,269)**	(78,226,322)
Investments in finance lease – net	**4,199,138,508**	4,238,416,012
Less: Current portion	**(283,570,327)**	(272,351,588)
Less: Accrued finance lease receivable	**(42,285,101)**	(42,143,170)
Non-current portion	**3,873,283,080**	3,923,921,254

Investments represent net investment in finance lease. Total number of outstanding lease agreements as at 31 December 2020 is 7,041 (31 December 2019: 6,909).

(Amounts in Saudi Riyals)

9. INVESTMENTS IN FINANCE LEASE – NET (CONTINUED)

The Company generates substantially all of its revenues from leasing real estate in the Kingdom of Saudi Arabia. Gross amounts due in relation to the finance leases are due from individual customers. Title deeds of the underlying properties are in the name of the Company, except for those where the ownership has been transferred to Arab National Bank (a shareholder) in accordance with the terms of the facility agreement for Tawaruq Financing facilities (refer to note 19), and for those where the ownership has been kept under the name of Kingdom Instalment Company (a shareholder) as a custodian in accordance with the custodian agreement.

9.1 The movement in the allowance for expected credit losses for investments as at 31 December is shown below:

	31 December 2020
Balance at the beginning of the year	**78,226,322**
Charge for the year, net	**4,203,947**
Balance at the end of the year	**82,430,269**

	31 December 2019
Balance at the beginning of the year	66,899,663
Charge for the year, net	11,326,659
Balance at the end of the year	78,226,322

9.2 The credit quality of investments in finance lease is as follows:

31 December 2020	**12-month ECL**	**Life time ECL not credit impaired**	**Life time ECL credit impaired**	**Total**
Gross carrying amount	**3,623,423,812**	**382,231,466**	**275,913,499**	**4,281,568,777**
Allowance for expected credit losses	**(2,154,938)**	**(13,008,217)**	**(67,267,114)**	**(82,430,269)**
Net carrying amount	**3,621,268,874**	**369,223,249**	**208,646,385**	**4,199,138,508**

31 December 2019	12-month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Gross carrying amount	3,680,819,462	438,006,927	197,815,945	4,316,642,334
Allowance for expected credit losses	(989,755)	(28,117,460)	(49,119,107)	(78,226,322)
Net carrying amount	3,679,829,707	409,889,467	148,696,838	4,238,416,012

The related staging movements of the investments in finance lease and the related allowance for expected credit losses are disclosed in Note 25.

(Amounts in Saudi Riyals)

9. INVESTMENTS IN FINANCE LEASE – NET (CONTINUED)

9.3 Maturity profile of the lease payments is as follows:

	2020			2019
Year	**Minimum lease payments**	**Unearned finance income**	**Investments in finance lease**	**Investments in finance lease**
Within one year	**592,026,714**	**266,171,286**	**325,855,428**	314,494,758
Year two	**538,893,121**	**246,519,807**	**292,373,314**	280,560,759
Year three	**522,872,950**	**226,549,651**	**296,323,299**	288,467,973
Year four	**500,526,254**	**206,531,863**	**293,994,391**	292,213,868
Year five and later	**4,512,621,719**	**1,439,599,374**	**3,073,022,345**	3,140,904,976
	6,666,940,758	**2,385,371,981**	**4,281,568,777**	4,316,642,334

9.4 The ageing of investment in finance leases, which are not impaired are as follows:

Days past due:	**2020**	2019
Current	**2,735,793,157**	2,954,057,564
1 – 30	**923,232,713**	759,346,512
31 – 60	**294,727,693**	314,406,667
61 –90	**51,901,715**	91,015,646
Total	**4,005,655,278**	4,118,826,389

Collateral

The Company in the ordinary course of lending activities holds collateral as security to mitigate credit risk. These collaterals are primarily title deeds in the name of the Company, for properties that have been leased out to the portfolio of investments in finance lease. As at 31 December 2020, the carrying amount of gross non-performing leases amounted to SR 159.12 million (2019: SR 177.05 million) and the fair value of identifiable real estate collateral held against them amounted to SR 211.58 million (2019: SR 214.71 million). The Company has a policy to value every year, all real estate properties leased out, by involving approved appraisers.

SAMA program - customer support on deferral of financing

During April 2020, SAMA has issued a guidance to financing companies around providing the necessary support for individual customers that lost their jobs in the private sector due to COVID-19, whether directly or indirectly. Accordingly, the Company has received applications from various customers to avail this SAMA program and has effected the payment reliefs by extending the tenure of the applicable investments in finance lease for six months with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the investments in finance lease has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. The Company has deferred the payments amounting to SR 4.44 million for customers and accordingly has recognised modification loss of SR 2.68 million and unwound SR 0.08 during the year ended 31 December 2020. The impact of these modification losses was presented as part of lease finance income. The total gross exposure against these customers amounted to SR 104.3 million at year-end.

(Amounts in Saudi Riyals)

10. DEFERRED ORIGINATION FEES

Deferred origination fees comprise of the unamortized portion of commission paid to Arab National Bank, a shareholder for deals originated through the use of its infrastructure, resources and client base.

	2020	2019
Deferred origination fees	**22,027,601**	25,791,599
Less: Current portion	**(2,654,437)**	(2,908,196)
Non-current portion	**19,373,164**	22,883,403

The movement in deferred origination fees is shown below:

	2020	2019
At beginning of the year	**25,791,599**	29,810,236
Origination fees incurred and paid for the year	**211,928**	108,863
Origination charge for the year	**(3,975,926)**	(4,127,500)
At end of the year	**22,027,601**	25,791,599

11. OTHER REAL ESTATE

The Company repossesses real estate assets against settlement of over-due long-term investments in finance lease as follows:

	2020	2019
At beginning of the year	**6,963,475**	2,829,685
Repossession during the year	**11,171,633**	4,133,790
Sold during the year	**(4,621,500)**	--
Impairment losses	**(4,856,682)**	--
At end of the year	**8,656,926**	6,963,475

12. RIGHT-OF-USE ASSET / LEASE LIABILITY

The Company has three lease contracts with different lessors for the lease of premises of the Head Office in Riyadh, Dammam Branch and Jeddah Branch. All contracts started during 2019.

Details on the three contracts are as follows:

Lease liability - 2020	**Riyadh**	**Dammam**	**Jeddah**	**Total**
Undiscounted cash flows based on lease terms	**6,539,820**	**1,115,730**	**2,500,000**	**10,155,550**
Lease liability, 1 January 2020	**3,868,796**	**699,557**	**1,361,624**	**5,929,977**
Additions during the period	**228,014**	**--**	**--**	**228,014**
Payment of lease liability	**(2,179,940)**	**(371,910)**	**--**	**(2,551,850)**
Amortisation of discount	**204,841**	**30,766**	**--**	**235,607**
Lease liability, 31 December 2020	**2,121,711**	**358,413**	**1,361,624**	**3,841,748**
Right-of-use asset - 2020				
Right-of-use asset, 1 January 2020	**3,837,515**	**739,742**	**1,731,790**	**6,309,047**
Additions during the period	**228,014**	**--**	**--**	**228,014**
Accumulated depreciation	**(1,957,119)**	**(341,421)**	**(432,948)**	**(2,731,488)**
Right-of-use asset, 31 December 2020	**2,108,410**	**398,321**	**1,298,842**	**3,805,573**

(Amounts in Saudi Riyals)

12. RIGHT-OF-USE ASSET / LEASE LIABILITY (CONTINUED)

Lease liability - 2019	**Riyadh**	**Dammam**	**Jeddah**	**Total**
Undiscounted cash flows based on lease terms	6,241,972	1,115,730	2,500,000	9,857,702
Lease liability, 1 January 2019	5,125,399	--	2,164,738	7,290,137
Additions during the period	540,747	1,024,262	--	1,565,009
Payment of lease liability	(2,080,656)	(371,909)	(1,000,000)	(3,452,565)
Amortisation of discount	283,306	47,204	196,886	527,396
Lease liability, 31 December 2019	3,868,796	699,557	1,361,624	5,929,977

Right-of-use asset – 2019				
Right-of-use asset, 1 January 2019	5,125,399	--	2,164,738	7,290,137
Additions during the period	540,747	1,024,262	--	1,565,009
Accumulated depreciation	(1,828,631)	(284,520)	(432,948)	(2,546,009)
Right-of-use asset, 31 December 2019	3,837,515	739,742	1,731,790	6,309,047

The Company calculates the present value of the three contracts using the Company's incremental borrowing rate of 5% over the lease term and amortises the right-of-use asset using the straight-line method over the lease term.

13. PROPERTY AND EQUIPMENT, NET

31 December 2020	**Leasehold improvements**	**Vehicles**	**Furniture, fixtures and office equipment**	**Computers**	**Work-in-process**	**Total**
Cost						
Balance at beginning of the year	**5,601,697**	**495,001**	**6,034,468**	**8,848,146**	**851,206**	**21,830,518**
Additions	**101,674**	**--**	**109,917**	**969,227**	**369,836**	**1,550,654**
Disposals	**--**	**(300,000)**	**--**	**(360,035)**	**--**	**(660,035)**
Balance at end of the year	**5,703,371**	**195,001**	**6,144,385**	**9,457,338**	**1,221,042**	**22,721,137**
Accumulated depreciation						
Balance at beginning of the year	**3,927,994**	**457,706**	**5,087,144**	**7,590,091**	**--**	**17,062,935**
Charge for the year	**332,938**	**37,191**	**225,601**	**450,366**	**--**	**1,046,096**
Disposal	**--**	**(300,000)**	**--**	**(360,035)**	**--**	**(660,035)**
Balance at end of the year	**4,260,932**	**194,897**	**5,312,745**	**7,680,422**	**--**	**17,448,996**
Net book value	**1,442,439**	**104**	**831,640**	**1,776,916**	**1,221,042**	**5,272,141**

(Amounts in Saudi Riyals)

13. PROPERTY AND EQUIPMENT, NET (CONTINUED)

31 December 2019	**Leasehold improvements**	**Vehicles**	**Furniture, fixtures and office equipment**	**Computers**	**Work-in-process**	**Total**
Cost						
Balance at beginning of the year	5,369,647	495,001	5,776,840	8,109,001	402,651	20,153,140
Additions	232,050	--	257,628	739,145	448,555	1,677,378
Balance at end of the year	5,601,697	495,001	6,034,468	8,848,146	851,206	21,830,518
Accumulated depreciation						
Balance at beginning of the year	3,608,472	372,856	4,893,018	7,213,531	--	16,087,877
Charge for the year	319,522	84,850	194,126	376,560	--	975,058
Balance at end of the year	3,927,994	457,706	5,087,144	7,590,091	--	17,062,935
Net book value	1,673,703	37,295	947,324	1,258,055	851,206	4,767,583

14. INTANGIBLE ASSETS

Cost	**2020**	2019
Balance at beginning of the year	**10,373,893**	8,973,012
Additions	**766,440**	1,400,881
Balance at end of the year	**11,140,333**	10,373,893
Accumulated amortisation		
Balance at beginning of the year	**(7,216,557)**	(5,410,936)
Charge for the year	**(1,423,853)**	(1,805,621)
Balance at end of year	**(8,640,410)**	(7,216,557)
Net book value	**2,499,923**	3,157,336

Intangible assets comprise of computer software purchased by the Company for its business and major upgrades in the computer software to meet business requirements.

15. SERVICING RIGHTS UNDER AGENCY ARRANGEMENTS

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

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

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

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

(Amounts in Saudi Riyals)

16. ACCOUNTS PAYABLE

Accounts payable includes amounts pertaining to VAT payable to GAZT payable to evaluation and other services provider companies.

17. ACCRUED EXPENSES AND OTHER LIABILITIES

	2020	2019
Employees' related expenses	**7,192,528**	5,570,132
Accrued insurance charges	**--**	1,421,442
Accrued legal and consultation fees	**548,500**	370,000
Provision for maintenance on finance lease contracts	**424,800**	424,800
Accrued brokerage fees	**57,738**	16,980
Servicing right liability (Note 15)	**774,923**	--
Others	**327,227**	1,292,988
Total	**9,325,716**	9,096,342

18. PROVISION FOR ZAKAT AND INCOME TAX

Zakat is a levy as defined by the GAZT in the Kingdom of Saudi Arabia on the Saudi shareholders. Income tax charge for the year has been calculated based on adjusted net income of the Company attributable to Non-Saudi shareholders at the rate of 20% per annum.

The Company has filed its zakat and income tax returns for the years from 2008 up to 2019 and have received final assessment up to 2018.

Prior years zakat settlement

For financial years 2008 – 2013, the files for these years was closed based on settlement agreed with the authority.

Furthermore, in February 2019, the Company received a settlement agreement from the GAZT to settle the outstanding assessments relating to zakat for the financial years from 2014 to 2017 and provided a settlement calculation method for financial year 2018. The Company accepted this settlement agreement and begun paying the amounts. The remaining balance to be paid as part of this settlement as of 31 December 2020 is SR 12.18 Million.

2019 zakat regulations

The GAZT has issued the implementing rules and regulations under Ministerial Decree No. 2216 dated 7 Rajab 1440H (corresponding to 14 March 2019) in respect to the calculation of zakat of financing activities which was applied by the Company effective 1 January 2019. Based on this, the Company has recognised zakat expense amounting to SR 7.97 million for the year ended 31 December 2020 (SR 6.95 million in 31 December 2019).

(Amounts in Saudi Riyals)

18. PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED)

The movements in the Company's provision for zakat and income tax for the year ended 31 December are as follows:

	2020	2019
Balance, beginning of the year	**27,978,017**	36,413,896
Provision for zakat for the current year	**7,969,857**	6,945,907
Provision for zakat for the previous years	**--**	12,831,866
Provision for income tax for the current year	**4,764,834**	4,781,398
Payment during the year	**(16,067,913)**	(32,995,050)
Balance, end of the year	**24,644,795**	27,978,017

The Company's provision for income tax for the year ended 31 December is computed as follows:

Income tax	**2020**	2019
Taxable net income	**110,007,892**	93,848,752
Non-Saudi portion of the adjusted net income	**23,101,657**	19,708,238
Finance charges in excess of allowed amount	**--**	4,541,956
Non-Saudi share of utilized provisions previously added back to the taxable income	**(607,353)**	(343,204)
	22,494,304	23,906,990
Income tax for the year (20%)	**4,498,861**	4,781,398

Deferred tax asset

	31 December 2020	31 December 2019
Balance at the beginning of the year	**4,563,723**	4,068,676
Movement during the period	**273,615**	495,047
Balance at end of the year	**4,837,338**	4,563,723

The Company's deferred tax assets arise primarily from employees' end of service benefits liability, allowance for expected credit losses on investment in finance lease and depreciation of property and equipment.

2020	**Beginning balance**	**Recognised in the statement of income**	**Ending balance**
Deductible temporary difference			
Depreciation of property and equipment	**313,507**	**(8,626)**	**304,881**
Provision for end of service benefits liability	**393,830**	**(42,214)**	**351,616**
Provision for expected credit losses	**3,856,386**	**324,455**	**4,180,841**
Balance at end of the year	**4,563,723**	**273,615**	**4,837,338**

2019	**Beginning balance**	**Recognised in the statement of income**	**Ending balance**
Deductible temporary difference			
Depreciation of property and equipment	342,873	(29,366)	313,507
Provision for end of service benefits liability	360,793	33,037	393,830
Provision for credit losses	3,365,010	491,376	3,856,386
Balance at end of the year	4,068,676	495,047	4,563,723

(Amounts in Saudi Riyals)

19. TAWARRUQ FINANCING FACILITIES

	2020	2019
Current portion of facilities	**1,091,739,856**	421,615,415
Non-current portion of facilities	**1,714,657,021**	2,372,498,640
Total excluding financial charges	**2,809,396,877**	2,794,114,055
Accrued Tawaruq financing charges	**13,486,900**	7,808,558
Total including financial charges	**2,819,883,777**	2,801,922,613

This item represents the Tawarruq financing facilities from Arab National Bank (shareholder) (“ANB”), International Finance Corporation (Shareholder) (“IFC”), Gulf International Bank (“GIB”), National commercial Bank (“NCB”) and Saudi Refinance Company (“SRC”) to finance the investments in finance lease.

All facilities are secured by promissory notes and assignment of contracts and proceeds from investments in finance lease, these facilities bear finance charges at interest margin plus 6 months/ 3 months SAIBOR. Facility repayment schedule is based on equal semi-annual or quarter payment.

The movements during the year ended 31 December are as follows:

	2020	2019
Balance as at beginning of the year	**2,801,922,613**	2,824,238,161
Borrowings made during the year	**224,322,158**	357,677,842
Repayment during the year	**(212,369,801)**	(380,323,854)
Finance charge accrued during the year	**93,167,534**	137,200,554
Finance charge repayments during the year	**(87,158,727)**	(136,870,090)
Balance as at end of the year	**2,819,883,777**	2,801,922,613

The outstanding balance for these facilities is as follows:

	2020	2019
Arab National Bank	**1,832,298,936**	1,900,010,120
Gulf International Bank	**392,920,322**	401,395,147
International Finance Corporation	**140,784,894**	172,186,266
National Commercial Bank	**377,881,841**	328,331,080
Saudi Real Estate Refinance Company	**75,997,784**	--
Total	**2,819,883,777**	2,801,922,613

The finance charge related to these facilities is as follows:

	2020	2019
Arab National Bank	**62,159,970**	103,241,287
Gulf International Bank	**13,932,011**	20,761,994
International Finance Corporation	**6,317,122**	10,059,030
National Commercial Bank	**9,760,646**	3,138,243
Saudi Real Estate Refinance Company	**997,785**	--
Total	**93,167,534**	137,200,554

(Amounts in Saudi Riyals)

19. TAWARRUQ FINANCING FACILITIES (CONTINUED)

Details of the facilities and outstanding balance thereon is as follows:

Maturity date		Facility amount	Outstanding balance	Current portion	Non-current portion
June 2021	ANB	500,000,000	228,203,728	228,203,728	--
March 2022	ANB	500,000,000	41,384,380	13,644,970	27,739,410
June 2022	ANB	650,000,000	418,344,404	28,951,321	389,393,083
October 2023	ANB	500,000,000	368,524,652	16,839,344	351,685,308
October 2023	ANB	150,000,000	109,887,110	5,021,158	104,865,952
August 2020	ANB	206,696,969	165,357,576	165,357,576	--
January 2021	ANB	350,000,000	299,185,008	299,185,008	--
July 2023	ANB	400,000,000	201,412,078	16,393,290	185,018,788
		3,256,696,969	**1,832,298,936**	**773,596,395**	**1,058,702,541**
January 2021	GIB	300,000,000	172,888,167	172,888,167	--
July 2023	GIB	150,000,000	138,009,468	6,009,468	132,000,000
June 2025	GIB	415,000,000	82,022,687	9,133,798	72,888,889
		865,000,000	**392,920,322**	**188,031,433**	**204,888,889**
September 2034	NCB	282,074,992	264,572,261	14,230,705	250,341,556
November 2034	NCB	50,602,850	48,168,785	2,626,220	45,542,565
January 2035	NCB	67,322,158	65,140,795	3,709,325	61,431,470
		400,000,000	**377,881,841**	**20,566,250**	**357,315,591**
June 2021	SRC	**100,000,000**	**75,997,784**	**75,997,784**	**--**
June 2025	IFC	**187,500,000**	**140,784,894**	**47,034,894**	**93,750,000**
Total		**4,809,196,969**	**2,819,883,777**	**1,105,226,756**	**1,714,657,021**

Tawarruq financing facilities are scheduled for repayment as follows:

Year	2020	2019
2020	**--**	429,423,974
2021	**1,105,226,756**	808,243,838
2022	**514,524,737**	517,313,016
2023	**796,900,026**	760,804,289
2024	**60,361,111**	53,428,524
2025	**65,555,556**	37,803,524
2026 – 2035	**277,315,591**	194,905,448
	2,819,883,777	2,801,922,613

In response to COVID-19, SAMA launched the *Private Sector Financing Support Program* ("PSFSP") in March 2020 to provide the necessary support to the SME sector, including financing companies, through empowering and facilitating the financing community. Among others, the PSFSP includes deferred payments program which the Company availed.

As part of the deferred payments program, the management based on its assessment of the Company's liquidity has notified the Company's bank lenders during the year where the Company opted to defer payments amounting to SR 352.19 million for six months on its lending facilities by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months by 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. Since the inception of the deferred payments program by SAMA and by the end of the year, the Company has recognised SR 6.6 million of related modification gains, out of which SR 5.58 million have been unwound.

(Amounts in Saudi Riyals)

20. END OF SERVICE BENEFITS

The Company operates an 'End of service benefit plan' for its staffs based on the prevailing Saudi Labour Laws. As at 31 December 2020, actuarial valuation was carried out by the Company which estimated the plan liability to be SR 8.37 million.

The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2020	2019
Defined benefit obligation at the beginning of the year	**9,376,906**	8,590,316
Current service cost	**1,594,609**	1,465,902
Interest cost on defined benefit obligation	**292,441**	413,212
Benefits paid/payable to outgoing members during the year	**(2,030,696)**	(1,203,494)
Actuarial (gain) / loss on obligation	**(861,460)**	110,970
Defined benefit obligation at the end of the year	**8,371,800**	9,376,906

Amounts charged to the statements of income and comprehensive income for the year are as follows:

	2020	2019
Current service cost	**1,594,609**	1,465,902
Interest cost on defined benefit obligation	**292,441**	413,212
Cost recognised in the statement of income	**1,887,050**	1,879,114
Actuarial (gain) / loss on obligation recognised in OCI	**(861,460)**	110,970
Total defined benefit cost recognised during the year	**1,025,590**	1,990,084

The re-measurement recognised in other comprehensive income comprise of the following:

	2020	2019
Loss from change in financial assumptions	**141,771**	327,991
Gain due to change in demographic assumptions	**(496,240)**	(840)
Gain from change in experience assumptions	**(506,991)**	(216,181)
Actuarial re-measurement of the defined benefit obligation	**(861,460)**	110,970

The principal actuarial assumptions in respect of the employee benefit scheme are as follows:

	2020	2019
Discount rate	**1.70%**	**2.95%**
Expected rate of salary increase	**5%**	**2.95%**
Normal retirement age	**60**	**60**

During 2020, the discount rate has been reduced to SR 1.70% to reflect the current market yields of sovereign bonds considering the average duration of the defined benefit obligation of 7 years. Furthermore, management has increased the expected salary increase rate to 5% based on the recent available trend on salary increases of the Company's employees.

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

(Amounts in Saudi Riyals)

20. END OF SERVICE BENEFITS (CONTINUED)

The maturity profile of the defined benefit obligation is as follows:

	2020	2019
Weighted average duration of the defined benefit obligation	**7.38**	10.00
Distribution of timing of benefit payments		
Year 1	**929,036**	514,065
Year 2	**1,472,969**	1,048,836
Year 3	**981,220**	669,863
Year 4	**968,761**	740,403
Year 5	**1,033,132**	799,588
Year 6-10	**5,515,498**	7,298,055

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December 2020 and 2019 to the discount rate and the expected rate of salary increase while other assumptions remain constant.

	2020	2019
Discount rate, +0.5%	**(309,577)**	(469,679)
Discount Rate, -0.5%	**309,577**	469,679
Expected rate of salary increase, +0.5%	**251,859**	364,120
Expected rate of salary increase, -0.5%	**(251,859)**	(364,120)

21. SHARE CAPITAL

The authorised, issued and fully paid share capital of the company consists of 100 million shares of SAR 10 each (2019: 100 million shares of SAR 10 each).

The ownership of the company's share capital is as follows:

	No. of shares	**Share capital**
Arab National Bank	40,000,000	400,000,000
Dar Al Arkan Real Estate Development Company	15,000,000	150,000,000
Kingdom Instalment Company	9,000,000	90,000,000
Youssef bin Abdullah Al Shalash	8,000,000	80,000,000
Tareq Mohammad Al Jarallah	6,000,000	60,000,000
Hathlool Bin Saleh Al Hathlool	6,000,000	60,000,000
International Finance Corporation	5,000,000	50,000,000
Abdulatif Bin Abdullah Al Shalash	5,000,000	50,000,000
Inma Almadaen Company	4,000,000	40,000,000
Daem Al Khaleej Company	2,000,000	20,000,000
Total	**100,000,000**	**1,000,000,000**

22. STATUTORY RESERVES

In accordance with the Company's By-laws, minimum 10% of the annual net income is required to be transferred to a statutory reserve until this reserve equals 30% of the capital. This reserve is not available for dividend distribution.

(Amounts in Saudi Riyals)

23. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	**2020**	2019
Employees' salaries and other benefits		**49,473,859**	40,360,818
Portfolio insurance charges		**15,193,707**	13,243,357
Depreciation and amortisation	*12, 13, 14*	**5,201,437**	5,326,776
Impairment loss on other real estate	*11*	**4,856,682**	--
Consultation fees		**4,620,229**	2,833,910
Software support charges		**2,854,603**	1,632,094
Collection commission		**2,501,196**	2,278,085
VAT expense		**2,134,145**	425,799
Provision against legal claim	*5*	**1,718,488**	475,733
Telecommunication expenses		**920,300**	693,216
Repairs and maintenance		**616,161**	343,739
Bank charges		**470,743**	589,902
Travel expenses		**372,548**	768,906
Recruitment related expenses		**247,667**	227,430
Printing and stationery		**163,631**	136,129
Withholding tax		**11,287**	28,520
Others		**2,330,840**	2,498,307
		93,687,523	71,862,721

Other expense mainly include provision for legal claims, subscription expenses and various expenses.

24. SELLING AND MARKETING EXPENSES

	2020	2019
Sales and title commission	**2,634,637**	2,098,337
Origination expenses	**3,975,926**	4,127,500
Evaluation fees	**2,668,360**	2,282,185
Marketing expenses	**1,250,384**	3,626,879
Others	**881,041**	221,388
	11,410,348	12,356,289

25. FINANCIAL RISK MANAGEMENT

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Credit and Risk Management Committee, which has the responsibility to monitor the overall risk process within the Company.

The Credit and Risk Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Credit and Risk Management Committee is responsible for managing risk decisions and monitoring on risk levels and reports on a quarterly basis to the Credit and Risk Management Committee.

Credit risk

The Company manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in investments in finance lease.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Company's risk management policies are designed to identify, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored on regularly basis.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. Management monitors the market value of collateral obtained during its review of the adequacy of the impairment allowance for credit losses. The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

i. Credit quality analysis

Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining lifetime probability of default ("PD") as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Company groups its investments in finance lease into Stage 1, Stage 2, Stage 3, as described below:

Stage 1: When the investments in finance lease are first recognised, the Company recognises an allowance based on 12 months ECLs. Stage 1 investments in finance lease also include those where the credit risk has improved and the investments in finance lease has been reclassified from Stage 2.

Stage 2: When the investments in finance lease has shown a significant increase in credit risk since origination, the company records an allowance for the Lifetime ECL. Stage 2 investments in finance lease also include those where the credit risk has improved and the investments in finance lease has been reclassified from Stage 3.

Stage 3: Investments in finance lease considered credit-impaired. The Company records an allowance for the Lifetime ECL.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

ii. Generating the term structure of PD

Days past due is the primary input into the determination of the PD term structure. The Company collects performance and default information about its credit risk exposures, analyses the relationships between its historical default rates and macro-economic factors. The key macro-economic indicators are gross domestic product, general government gross debt and general government total expenditure apart from the relationship of multiple variables which were tested and used in the development of macroeconomic overlaid PD term structures.

iii. Determining whether credit risk has increased significantly

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

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modelling. Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

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

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Consideration due to COVID-19:
In response to the impacts of COVID-19, the Company has deferred eligible instalments of customers who applied in line with the program of SAMA (note 9). The exercise of the deferment option by a customer, in its own, is not considered by the Company as triggering SICR and as a consequence impact on ECL.

iv) Modified financial assets

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

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

iv) Modified financial assets (continued)

If the modification results in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of the following:

- risk of default at the reporting date (based on modified contractual terms); and
- the risk of default based on the modified terms.

The modified terms usually include extending the maturity, changing the timing of interest payments and amending the terms of debt instrument covenants.

For financial assets, which are modified, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired / default or the risk of default is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

During the year, no material losses were recognized on modification or restructuring of any facility.

v) Definition of 'Default'

The Company considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to Company in full; or
- the borrower is past due more than 90 days on any material credit obligation to the Company.

In assessing whether a borrower is in default the Company considers indicators that are:
- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Company;

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

vi) Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The expected credit losses have been determined using three different, forward-looking scenarios – Baseline, Upturn and Downturn. The ECL for each of the scenario is calculated and weighted by the likelihood of that scenario is occurring.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

(Amounts in Saudi Riyals)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

vi) Incorporation of forward-looking information (continued)

The Company has identified and documented key drivers of credit risk and credit losses for its portfolio and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. Listed below are the key independent variables selected on the basis of correlation used as at 31 December 2020.

- GDP based on purchasing-power-parity share of world total
- General government gross debt (% of GDP; and
- General government total expenditure (% of GDP).

The economic scenarios used as at 31 December 2020 included the following ranges of key macroeconomic variables:

Macroeconomic variable	**31 December 2020**
GDP based on purchasing-power-parity share of world total	Upside 30% Base case 40% Downside 30%
General government gross debt (% of GDP)	
General government total expenditure (% of GDP)	

Macroeconomic variable	**31 December 2019**
GDP, constant prices (in national currency)	Upside 30% Base case 40% Downside 30%
Gross national savings (% of GDP)	
General government total expenditure (in national currency)	

Considerations due to COVID-19:

1. Types of forward looking:

   The Company has updated its forward-looking variables (key economic drivers), refer to the above table.

2. Scenario assumptions

   As at 31 December 2020, the scenario assumptions are updated to reflect the current situation of COVID-19. This included an assessment of the support of the Government's actions, the response of business and customers (such as repayment deferrals). These are considered in determining the severity of the forecasts for each macroeconomic indicator.

3. Probability weightings

   The Company considered the probability weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Company's credit portfolios in determining them.

   Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current period is the continuing impact of COVID-19.

(Amounts in Saudi Riyals)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 years. To account for the impact of COVID-19, the Company has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Macroeconomic variable	**Forecast calendar years used in 2020 ECL model**		
	2021	**2022**	**2023**
GDP based on purchasing-power-parity share of world total	1.23%	1.29%	1.28%
General government gross debt (% of GDP)	35.69%	36.46%	37.88%
General government total expenditure (% of GDP)	35.31%	37.06%	36.95%

Sensitivity of ECL allowance:
The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Company's allowance for expected credit losses. The changing COVID-19 circumstances and the Government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the year end:

Assumptions sensitized	**Impact to the 2020 ECL – increase / (decrease)**
Macro-economic factors:	
Decrease in GDP based on purchasing-power-parity share of world total by 10%	132,365
Increase in general government gross debt by 10%	76,925
Decease in general government total expenditure by 10%	11,246
Scenario weightages:	
Base scenario reduced by -10% with corresponding change in downside	531,795
Base scenario reduced by -10% with corresponding change in upside	(232,398)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

vii) Measurement of ECL

The key inputs into the measurement of ECL are the following risk estimates:

i. probability of default (PD);
ii. loss given default (LGD); and
iii. exposure at default (EAD).

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored for high net worth individuals' portfolio. These rating models are based on both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. Furthermore, the PD term structure is estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD based on the history of recovery rates of claims against defaulted counterparties. LGD estimation considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset. Due to sparse historical defaults, the quantitative LGD estimates are adjusted based on expert judgement to arrive at the 25% final haircut of the collateral value and cost to liquidate.

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

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For portfolios in respect of which the Company has limited historical data or depending on the materiality of portfolio, qualitative adjustment is used to supplement any internally available data

(Amounts in Saudi Riyals)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Loss allowance

The following table shows reconciliations from the opening to the closing balance of the gross carrying amount of the investment in finance lease, insurance claims receivable and related loss allowance accounts.

		Lifetime ECL as at 2020		
Investments in finance lease before impairment	**12 Month ECL**	**Not credit Impaired**	**Credit impaired**	**Total**
Opening balance at 1 January	**3,680,819,462**	**438,006,927**	**197,815,945**	**4,316,642,334**
Transfer to 12 Month ECL	**116,692,185**	**(112,719,420)**	**(3,972,765)**	**--**
Transfer to Lifetime ECL(not credit impaired)	**(174,263,012)**	**181,795,074**	**(7,532,062)**	**--**
Transfer to Lifetime ECL (credit impaired)	**(15,786,512)**	**(95,138,064)**	**110,924,576**	**--**
Net change for the year	**15,961,689**	**(29,713,051)**	**(21,322,195)**	**(35,073,557)**
Closing balance	**3,623,423,812**	**382,231,466**	**275,913,499**	**4,281,568,777**

		Lifetime ECL as at 2020		
Loss allowance	**12 Month ECL**	**Not credit Impaired**	**Credit impaired**	**Total**
Opening balance at 1 January	**989,755**	**28,117,460**	**49,119,107**	**78,226,322**
Transfer to 12 Month ECL	**92,275**	**(87,781)**	**(4,494)**	**--**
Transfer to Lifetime ECL (not credit impaired)	**(103,888)**	**437,837**	**(333,949)**	**--**
Transfer to Lifetime ECL (credit impaired)	**(11,025)**	**(4,690,056)**	**4,701,081**	**--**
Net charge / (reversal) for the year	**1,187,821**	**(10,769,243)**	**13,785,369**	**4,203,947**
Closing balance	**2,154,938**	**13,008,217**	**67,267,114**	**82,430,269**

		Lifetime ECL as at 2020		
Insurance claims receivable	**12 Month ECL**	**Not credit Impaired**	**Credit impaired**	**Total**
Opening balance at 1 January	**20,013,909**	**--**	**16,097,961**	**36,111,870**
Net change for the year	**9,313,714**	**--**	**4,428,433**	**13,742,147**
Closing balance	**29,327,623**	**--**	**20,526,394**	**49,854,017**

		Lifetime ECL as at 2020		
Loss allowance	**12 Month ECL**	**Not credit Impaired**	**Credit impaired**	**Total**
Opening balance at 1 January	**--**	**--**	**12,098,311**	**12,098,311**
Net charge for the year	**--**	**--**	**3,296,484**	**3,296,484**
Closing balance	**--**	**--**	**15,394,795**	**15,394,795**

(Amounts in Saudi Riyals)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

		Lifetime ECL as at 2019		
Investments in finance lease before impairment	12 Month ECL	Not credit Impaired	Credit impaired	Total
Opening balance at 1 January	3,520,021,639	469,193,929	268,009,444	4,257,225,012
Transfer to 12 Month ECL	200,830,212	(178,401,887)	(22,428,325)	--
Transfer to Lifetime ECL (not credit impaired)	(146,189,110)	212,512,015	(66,322,905)	--
Transfer to Lifetime ECL (credit impaired)	(16,386,581)	(23,595,303)	39,981,884	--
Net change for the year	122,543,302	(41,701,827)	(21,424,153)	59,417,322
Closing balance	3,680,819,462	438,006,927	197,815,945	4,316,642,334

		Lifetime ECL as at 2019		
Loss allowance	12 Month ECL	Not credit impaired	Credit impaired	Total
Opening balance at 1 January	1,573,096	10,168,698	55,157,869	66,899,663
Transfer to 12 Month ECL	88,664	(81,027)	(7,637)	--
Transfer to Lifetime ECL (not credit impaired)	(64,932)	3,581,993	(3,517,061)	--
Transfer to Lifetime ECL (credit impaired)	(8,076)	(561,526)	569,602	--
Net (reversal) / charge for the year	(598,997)	15,009,322	(3,083,666)	11,326,659
Closing balance	989,755	28,117,460	49,119,107	78,226,322

		Lifetime ECL as at 2019		
Insurance claims receivable	12 Month ECL	Not credit impaired	Credit impaired	Total
Opening balance at 1 January	8,902,954	--	16,268,357	25,171,311
Net change for the year	11,110,955	--	(170,396)	10,940,559
Closing balance	20,013,909	--	16,097,961	36,111,870

		Lifetime ECL as at 2019		Total
Loss allowance	12 Month ECL	Not credit impaired	Credit impaired	
Opening balance at 1 January	--	--	12,201,267	12,201,267
Net charge for the year	--	--	(102,956)	(102,956)
Closing balance	--	--	12,098,311	12,098,311

d. Collateral

The Company in the ordinary course of lending activities hold collateral as security to mitigate credit risk in the investments in finance lease portfolio. This collateral mostly include financial guarantees and real estate. The collateral is managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

The amount of collateral held as security for investments in finance lease that are credit-impaired as at 31 December are as follows:

Loan to Value (SAR 000)	**2020**	2019
Less than 50%	**18,840**	15,830
51-70%	**71,441**	82,358
More than 70%	**121,299**	116,523
Total	**211,580**	214,711

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

Management monitors the maturity profile of the Company's assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date to ensure that adequate liquidity is maintained. All liabilities are contractually payable on a current basis. The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

2020	**No contractual maturity**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets						
Cash and bank balances	**142,327,982**	**--**	**--**	**--**	**--**	**142,327,982**
Invest. in finance lease (gross)	**--**	**138,434,725**	**453,591,989**	**2,037,127,436**	**4,037,786,608**	**6,666,940,758**
Prepaid expenses and other assets	**--**	**11,845,124**	**32,426,378**	**--**	**--**	**44,271,502**
Advances to property owners	**--**	**6,773,991**	**--**	**--**	**--**	**6,773,991**
Due from related parties	**--**	**633,377**	**--**	**--**	**--**	**633,377**
Total assets	**142,327,982**	**157,687,217**	**486,018,367**	**2,037,127,436**	**4,037,786,608**	**6,860,947,610**

2020	**No contractual maturity**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Liabilities						
Tawarruq financing facilities	**--**	**732,022,409**	**373,204,347**	**1,437,341,430**	**277,315,591**	**2,819,883,777**
Accounts payable	**--**	**8,106,379**	**--**	**--**	**--**	**8,106,379**
Advances received from customers	**--**	**4,396,874**	**--**	**--**	**--**	**4,396,874**
Acc. expenses and other liabilities	**--**	**9,325,715**	**--**	**--**	**--**	**9,325,715**
Total liabilities	**--**	**753,851,377**	**373,204,347**	**1,437,341,430**	**277,315,591**	**2,841,712,745**
Net	**142,327,982**	**(596,164,160)**	**112,814,020**	**599,786,006**	**3,760,471,017**	**4,019,234,865**

2019	**No contractual maturity**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets						
Cash and bank balances	54,199,589	--	--	--	--	54,199,589
Invest. in finance lease (gross)	--	143,678,811	421,115,538	2,124,436,183	4,231,089,795	6,920,320,327
Prepaid expenses and other assets	--	15,592,244	18,319,328	450,000	--	34,361,572
Advances to property owners	--	2,392,568	--	--	--	2,392,568
Due from related parties	--	765,379	--	--	--	765,379
Total assets	54,199,589	162,429,002	439,434,866	2,124,886,183	4,231,089,795	7,012,039,435

2019	**No contractual maturity**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Liabilities						
Tawarruq financing facilities	--	48,044,745	381,379,228	2,139,789,668	232,708,972	2,801,922,613
Accounts payable	--	23,920,326	24,339,788	2,332,963	--	50,593,077
Advances received from customers	--	7,496,185	--	--	--	7,496,185
Acc. expenses and other liabilities	--	8,607,271	--	--	--	8,607,271
Total liabilities	--	88,068,527	405,719,016	2,142,122,631	232,708,972	2,868,619,146
Net	54,199,589	74,360,475	33,715,850	-17,236,448	3,998,380,823	4,143,420,289

(Amounts in Saudi Riyals)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk
Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices.

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Company's statement of income or equity.

			Sensitivity analysis		
	Increase/ decrease in basis points	**Sensitivity of finance charges**	**12 months or less**	**More than 12 months**	**Total**
Tawarruq financing facilities	**+10**	**6,969,064**	**1,830,031**	**5,139,033**	**6,969,064**
	-10	**(6,969,064)**	**(1,830,031)**	**(5,139,033)**	**(6,969,064)**

Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
— In the principal market for the asset or liability, or
— In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market is accessible by the Company. Financial instruments comprise of investment in finance leases and equity investment.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost, except for equity investment which is classified as FVOCI. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance leases. The fair value of net investment in finance lease is determined using discounted cash flow technique using credit adjusted SIBOR. The expected rates are determined based on the risk profile of lease receivables and current commission rates.

(Amounts in Saudi Riyals)

26. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Tawarruq financing facilities bear floating rate of interest based on SIBOR and hence, there is no difference between the carrying value and fair value. Other financial liabilities such as accounts payable and accrued expenses and other liabilities approximate their fair values due to them being short-term in nature. There had been no inter-level transfers during the year.

The fair value of net investments in finance leases and investment are as follows:

		31 December 2020			
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Net investments in finance leases	**4,199,138,508**	**--**	**--**	**4,458,298,049**	**4,458,298,049**
Investment	**892,850**	**--**	**--**	**892,850**	**892,850**
Total		**--**	**--**	**4,459,190,899**	**4,459,190,899**

		31 December 2019			
	Carrying Value	Level 1	Level 2	Level 3	Total
Net investments in finance leases	4,238,416,012	--	--	4,233,224,682	4,233,224,682
Investment	892,850	--	--	892,850	892,850
Total		--	--	4,234,117,532	4,234,117,532

27. CAPITAL MANAGEMENT

The Company manages and controls its capital structure and liquidity needs in order to safeguard the Company's ability to meet its future obligations and growing plans and continue as a going concern. The Company monitors the adequacy of its capital using below measures:

	2020	2019
	Total capital ratio %	Total capital ratio %
Capital ratio	**22.53**	22.80

The capital ratio above is calculated by dividing the Company's total share capital with the weighted average total assets of the Company as at year-end. The Company has a capital of SR 1 billion (100 million share).

The Company also raised Tawarruq financing to fund investments in finance lease and to help achieve the differential between cost of funds and financing income from net investment in finance lease

28. COMMITMENT AND CONTINGENCIES

The Company faces during its normal activity some lawsuits and other claims related to the nature of its activity, however, significant claims are not expected to result from the outstanding lawsuits as at the financial statements date.

29. SUBSEQUENT EVENTS

No material events occurred after the reporting date that require adjustment or need to be disclosed the in the financial statements.

30. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform with the current year's presentation.

31. BOARD OF DIRECTORS APPROVAL

These financial statements were approved by the Board of Directors on 13 Rajab 1442H corresponding to 25 February 2021.