Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2020

Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
For the year ended 31 December 2020

INDEX **Pages**

Independent auditor's report	1-3
Statement of comprehensive income	4
Statement of financial position	5
Statement of changes in shareholders' equity	6
Statement of cash flows	7
Notes to the financial statements	8 - 50

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Morabaha Marina Financing Company (A Saudi Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Morabaha Marina Financing Company
(A Saudi Joint Stock Company) (continued)

Report on the audit of the financial statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Morabaha Marina Financing Company
(A Saudi Joint Stock Company) (continued)

Report on the audit of the financial statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements
Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Companies' Law and Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Rashid S. AlRashoud
Certified Public Accountant
License No. (366)

Riyadh: 12 Rajab 1442H
(24 February 2021)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	***2020*** ***SR***	*2019* *SR*
Special commission income	5	**105,590,333**	108,318,078
Special commission expense		**(24,700,254)**	(34,671,494)
NET SPECIAL COMMISSION INCOME		**80,890,079**	73,646,584
Other operating income			
Other income	6	**17,412,492**	16,283,676
TOTAL OPERATING INCOME		**98,302,571**	89,930,260
Operating expenses			
General and administration expenses	7	**(35,047,325)**	(33,773,883)
Impairment losses on Islamic financing receivables	12	**(23,440,525)**	(20,144,035)
INCOME BEFORE ZAKAT		**39,814,721**	36,012,342
Zakat	23	**(5,873,024)**	(6,611,673)
NET INCOME FOR THE YEAR		**33,941,697**	29,400,669
OTHER COMPREHENSIVE INCOME			
Other comprehensive income not to be reclassified to the profit and loss in subsequent periods			
Actuarial gain (loss) on remeasurement of employees' defined benefit liabilities	19	**68,416**	(285,510)
TOTAL COMPREHENSIVE INCOME		**34,010,113**	29,115,159
Basic and diluted earnings per share	22	**1.24**	1.24

The accompanying notes 1 to 30 form part of these financial statements

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Notes	***2020*** ***SR***	*2019* *SR*
ASSETS			
Cash and cash equivalents	8	**89,064,757**	156,581,005
Restricted cash deposits	8(b)	**2,023,184**	1,873,624
Prepayments and other assets	9	**13,002,576**	9,949,969
Investment at fair value investment through OCI	10	**892,850**	892,850
Islamic financing receivables	12	**793,636,024**	590,418,446
Repossessed asset held for sale	11	**66,606,251**	4,208,962
Right of use assets	15	**5,436,060**	5,549,087
Intangible assets	14	**4,957,212**	4,199,607
Property and equipment	13	**5,132,583**	4,889,813
TOTAL ASSETS		**980,751,497**	778,563,363
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accounts payable, accruals and others	16	**8,793,452**	9,557,332
Provision for zakat	23	**7,188,728**	3,137,744
Borrowings	18	**631,150,654**	466,988,823
Lease liabilities	15	**5,177,403**	5,182,133
Employees' defined benefit liabilities	19	**3,115,107**	2,381,291
TOTAL LIABILITIES		**655,425,344**	487,247,323
SHAREHOLDERS' EQUITY			
Share capital	20	**280,500,000**	255,000,000
Statutory reserve	21	**13,194,711**	9,793,700
Retained earnings		**31,631,442**	26,522,340
TOTAL SHAREHOLDERS' EQUITY		**325,326,153**	291,316,040
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**980,751,497**	778,563,363

The accompanying notes 1 to 30 form part of these financial statements

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

	Share capital SR	*Statutory reserve SR*	*Retained earnings SR*	*Total SR*
Balance at 1 January 2019	228,960,000	6,882,184	26,358,697	262,200,881
Increase in share capital	26,040,000	-	(26,040,000)	-
Net income for the year	-	-	29,400,669	29,400,669
Other comprehensive income	-	-	(285,510)	(285,510)
Total comprehensive income	-	-	29,115,159	29,115,159
Transfer to statutory reserve	-	2,911,516	(2,911,516)	-
Balance at 31 December 2019	255,000,000	9,793,700	26,522,340	291,316,040
Increase in share capital	25,500,000	-	(25,500,000)	-
Net income for the year	-	-	33,941,697	33,941,697
Other comprehensive income	-	-	68,416	68,416
Total comprehensive income	-	-	34,010,113	34,010,113
Transfer of statutory reserve	-	3,401,011	(3,401,011)	-
Balance at 31 December 2020	**280,500,000**	**13,194,711**	**31,631,442**	**325,326,153**

The accompanying notes 1 to 30 form part of these financial statements

Morabaha Marina Financing Company
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

	Notes	***2020*** ***SR***	*2019* *SR*
OPERATING ACTIVITIES			
Net income for the year		**39,814,721**	36,012,342
Adjustments for:			
Impairment losses on Islamic financing receivables	12	**23,440,525**	20,144,035
Depreciation on property and equipment	13	**1,173,580**	1,164,369
Amortisation of intangible assets	14	**671,185**	511,482
Depreciation on right of use assets	15	**1,587,986**	1,701,535
Prepaid zakat	23	-	(3,473,929)
Provision for employees' terminal benefits	19	**856,766**	682,287
Finance charge on lease	15	**332,161**	379,713
Operating cash flows before working capital changes		**67,876,924**	57,121,834
Working capital adjustments:			
Islamic financing receivables		**(226,658,103)**	(122,704,155)
Prepayments and other assets		**(3,052,607)**	(4,324,999)
Repossessed asset held for sale		**(62,397,289)**	(4,208,962)
Accounts payable, accruals and others		**(892,790)**	(1,002,430)
Net cash used in operations		**(225,123,865)**	(75,118,712)
Zakat paid	23	**(1,822,040)**	-
Lease obligation paid	15	**(1,832,500)**	(1,889,367)
Employees' terminal benefits paid	19	**(54,534)**	(79,382)
Net cash used in operating activities		**(228,832,939)**	(77,087,461)
INVESTING ACTIVITIES			
Additions to property and equipment	13	**(1,416,350)**	(872,305)
Additions to intangible assets	14	**(1,428,790)**	(957,064)
Cash used in investing activities		**(2,845,140)**	(1,829,369)
FINANCING ACTIVITIES			
Proceeds from borrowings		**327,000,000**	264,315,727
Repayment of borrowings		**(162,838,169)**	(113,009,056)
Net cash from financing activities		**164,161,831**	151,306,671
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(67,516,248)**	72,389,841
Cash and cash equivalents at beginning of the year		**156,581,005**	84,191,164
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	8	**89,064,757**	156,581,005
SIGNIFICANT NON-CASH TRANSACTIONS			
Issuance of share capital	20	**25,500,000**	26,040,000
Right of use assets	15	**(1,474,959)**	(7,250,622)
Prepaid rent (adjustment upon adoption of IFRS 16)	15	-	558,835
Lease liabilities	15	**1,495,609**	6,691,787
OTHER SUPPLEMENTARY INFORMATION			
Special commission paid		**(19,369,539)**	(29,294,202)
Special commission received		**96,763,732**	100,840,942

The accompanying notes 1 to 30 form part of these financial statements

1 ACTIVITIES

Morabaha Marina Financing Company (the "Company") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration numbered 1010337706 dated 14 Jumada Al-Thani 1433H (corresponding to 5 May 2012). The Company's head office is located at Riyadh and registered address is P.O. Box 8055, Riyadh 14925, Kingdom of Saudi Arabia, Ar Rabi district, Thomamah road. The Company has the following branches:

Branch Commercial Registration Number	*Branch location*	*Date*
3450015199	Arar	8 Jumada II 1437H
1010337706	Riyadh Main	14 Jumada II 1433H
1010351999	Riyadh	16 Dhul-Qadah 1433H
1010453589	Riyadh	2 Dhul-Qadah 1439H
1116010899	Dawadmi	19 Jumada II 1436H
2050125719	Dammam	8 Ramdan 1440H
2053112249	Qatif	2 Dhul-Qadah 1439H
3400019877	Skaka	10 Sahwwal 1437H
3452010771	Qurayyat	27 Sha'aban 1438H
4030288370	Jeddah	8 Jumada II 1437H
4030305936	Jeddah	2 Dhul-Qadah 1439H
5850064133	Abha	4 Sha'aban 1435H
5900034225	Jizan	8 Jumada II 1437H
1131307492	Buraydah	8 Muharram 1440H
3350149330	Hail	8 Muharram 1440H
5950028443	Najran	25 Muharram 1440H

The Company is engaged in leasing and providing financing facilities to medium and small enterprises and consumers in addition to financing production assets and offering consumer finance in accordance with the Saudi Arabian Monetary Authority ("SAMA") approval number 22/201410 dated 19 Dhul Qadah 1435H (corresponding to 13 September 2014).

2 BASIS OF PREPARATION

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

The financial statements are prepared on a going concern basis under the historical cost convention, except for the 'Investments classified as fair value through other comprehensive income' (FVOCI) which have been measured at their fair values and for employee benefits' liabilities, where actuarial present value calculations are used.

These financial statements have been presented in Saudi Riyals ("SR") unless otherwise stated, which is also the Company's functional currency.

The Company presents its statement of financial position in order of liquidity based on the Company's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 26.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes 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 new standard and in consideration of current economic environment, the following accounting policies are applicable effective 1 January 2020 replacing, amending or adding to the corresponding accounting policies set out in 2019 annual financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments

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 below amendments have no significant impact on the Company's financial statements.

- *Amendments to IFRS 3: Definition of a Business*

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

- *Amendments to IAS 1 and IAS 8: Definition of Material*

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

- *Amendments to References to the Conceptual Framework in IFRS Standards.*

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

- *Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform*

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.

Phase 1

The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform.

Phase 2

The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021 and early application is permitted. Now that the Phase 2 Amendments have been finalised, the Company will complete its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programs to implement the new requirements. The Phase 2 Amendments introduce new areas of judgement, the Company needs to ensure it has appropriate accounting policies and governance in place. For the additional disclosures, the Company will have to assess and implement required updates in the financial reporting systems and processes to gather and present the information required.

Management is assessing the impact of amendments on the Company.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 they do not have a significant impact on the financial statements.

- *Amendments to IFRS 16: Leases for COVID-19 rent related concessions.*

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

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

- *IFRS 17 – "Insurance contracts", applicable for the period beginning on or after January 1, 2023.*

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

- *Amendments to IAS 1 – "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after January,1, 2022*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- *Reference to the Conceptual Framework – Amendments to IFRS 3*

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting standards issued but not yet effective (continued)

- *Reference to the Conceptual Framework – Amendments to IFRS 3 (continued)*

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and this standard is not applicable to the Company.

- *Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16*

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

- *Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37*

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter*

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

- *IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting standards issued but not yet effective (continued)

- *IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities (continued)*

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

- *IAS 41 Agriculture – Taxation in fair value measurements*

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

3.2 Summary of significant accounting policies

The significant accounting policies adopted by the Company in preparation of these financial statements are as follows:

Financial instruments

i) Financial instruments – initial recognition

Date of recognition

Financial assets and liabilities, with the exception of Islamic financing receivables to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Company becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Islamic financing receivables to customers are recognised when funds are transferred to the customers' accounts. The Company recognises balances due to customers when funds are transferred to the Company.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in "Financial assets and liabilities per financial statement line" note below. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Islamic financing receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination, the Company recognises the difference between the transaction price and fair value in special commission income.

Measurement categories of financial assets and liabilities

The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- Fair value through other comprehensive income, FVOCI
- Fair value through profit and loss, FVTPL

Financial liabilities, other than loan commitments are measured at amortised cost or at FVPL when they are held for trading or the fair value designation is applied.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

Financial instruments (continued)

Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- Level 1 financial instruments − Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Company has access to at the measurement date. The Company considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- Level 2 financial instruments − Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Company will classify the instruments as Level 3.
- Level 3 financial instruments − Those that include one or more unobservable input that is significant to the measurement as whole.

The Company periodically reviews its valuation techniques including the adopted methodologies and model calibrations.

ii) Financial assets and liabilities per financial statement line

Financial assets at amortised cost

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

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

The details of these conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Company's assessment. 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.

SPPI Test

As a second step of its classification process the Company assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)
Financial instruments (continued)
'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI
A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in statement of comprehensive income in the same manner as for financial assets measured at amortised cost.

Equity instruments at FVOCI
Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Financial assets and financial liabilities at fair value through profit or loss
Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis, or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Company's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using the contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

iii) Reclassification of financial assets and liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition. Financial liabilities are never reclassified.

iv) Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Company derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes.

When assessing whether or not to derecognise a loan to a customer, the Company considers various factors.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Company considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

Derecognition other than for substantial modification

<u>Financial assets</u>

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Company has transferred the financial asset if, and only if the Company has transferred its contractual rights to receive cash flows from the financial asset.

A transfer only qualifies for derecognition if either:

- The Company has transferred substantially all the risks and rewards of the asset, OR
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)
Financial instruments (continued)
Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay. If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

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

Financial assets and financial liabilities are generally reported gross in the statement of financial position except when IFRS netting criteria are met.

vi) Impairment of financial assets
Overview of the ECL principles
The Company records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL, together with loan commitments issued, if any, all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit losses or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in note 26.

The 12mECL is the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2 and Stage 3, as described below:
- Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECL.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

Financial instruments (continued)

The calculation of ECL

The Company calculates ECL based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PD is further explained in note 26.
EAD	The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in note 26.
LGD	The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD. The LGD is further explained in note 26.

When estimating the ECL, the Company considers three scenarios (a base case, an upside, a downside). Each of these is associated with different PDs, EADs and LGDs, as set out below. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

Stage 1	The 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.
Stage 2	When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
Stage 3	For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

The Company also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as expert judgement, macroeconomic factors (e.g., unemployment, GDP growth, inflation and profit rates) and economic forecasts obtained through internal and external sources.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

Financial instruments (continued)

Debt instruments measured at fair value through OCI

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

vii) Credit enhancements: collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in form of personal guarantees, real estate and vehicles. Collateral, unless repossessed, is not recorded on the Company’s statement of financial position. Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on an annual basis by the approved external valuer..

To the extent possible, the Company uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties.

viii) Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. 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 presented as other income in the statement of comprehensive income.

ix) Repossessed asset held for sale

The Company’s 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 asset 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’s policy.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the statement of comprehensive 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 comprehensive income. Gains or losses on disposal are recognised in the statement of comprehensive income.

Revenue / expenses recognition

Special commission income and expenses

Net special commission income comprises special commission income and special commission expense calculated using both the effective interest method. These are disclosed separately on the face of the income statement for both special commission income and special commission expense to provide symmetrical and comparable information. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

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 any discount or premium on the acquisition of the financial asset, as well as fees and costs 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

Revenue / expenses recognition (continued)

Measurement of amortized cost and special commission income

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

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

In calculating special commission income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, special commission income is calculated by applying the effective special commission rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of special commission income reverts to the gross basis.

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

Income from early settlement fees is recognized upon the early termination of contract by the customer and fees charged at that point,

Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income for the year by weighted average number of shares outstanding during the year .

Expenses

General and administration expenses include direct and indirect costs not specifically forming part of operating costs.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of bank balances and cash in hand and short term bank deposits with original maturities of three months or less but does not include restricted cash deposits.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following, the initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at each financial year-end, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets, which comprise computer software, are amortized over a useful life of 10 years.

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

Accounting for leases

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.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of Use Assets (RoU)

The Company apply cost model, and measure right of use asset at cost;

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

Generally, RoU asset would be equal to the lease liability. However, if there are additional costs such as Site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the RoU asset value.

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

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

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

1. Increasing the carrying amount to reflect interest on the lease liability.
2. Reducing the carrying amount to reflect the lease payments made and;

Re-measuring the carrying amount to reflect any re-assessment or lease modification. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

Accounting for leases (continued)

Short-term leases and leases of low-value assets:

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Fair value

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

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

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured for any changes in its fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from the changes in the fair value of derivatives are taken directly to statement of comprehensive income.

Impairment of non-current assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs 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 groups of assets. Where 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.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognized in statement of comprehensive income in those expense categories that are consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized 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 recognized.

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 recognized for the asset in prior years. Such reversal is recognized in statement of comprehensive income. Impairment loss recognized against goodwill is not reversed in subsequent periods.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

Accounts payable and accruals

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

Employees' terminal benefits

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

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding impact in other comprehensive income in the period in which they occur. Remeasurements are not reclassified to statement of comprehensive income in subsequent periods.

Past service cost are recognised in statement of comprehensive income on the earlier of:

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

Net special commission income 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 statement of comprehensive income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements (under general and administration expenses); and
- Net special commission expense or income.

Zakat

Zakat is provided in accordance with the regulations of the General Authority of Zakat and Tax (“GAZT”) in the Kingdom of Saudi Arabia and on accruals basis. As set out in the note 2, zakat is charged to the statement of comprehensive income.

Borrowings

Special commission bearing funding from financial institutions and shareholders are measured at amortised cost using the effective profit rate (“EPR”) method. Gains and losses are recognised in statement of comprehensive income when the liabilities are derecognised as well as through the EPR amortization process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortization is included in special commission expense in the statement of comprehensive income.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Company receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to statement of comprehensive income over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) 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. When the effect of the time value of money is material, the Company determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are charged to statement of comprehensive income.

4 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS that are endorsed in the KSA and other standards and pronouncements that are 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 advices 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. Despite the fact that there are some uncertainties around the COVID-19 vaccine such as how long the immunity last, whether vaccine will prevent transmission or not etc.; however, the testing results showed exceptionally high success rates. Hence, the Company continues to be cognizant 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 of 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 has used estimates, assumptions or exercised judgements are as follows:

Determining the lease term of contracts with renewal and termination options

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

4 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset). Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 in respect of Islamic financing receivables requires certain amount of judgement including the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's Expected Credit Loss ("ECL") calculations are outputs of models with underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include assignment of Probability of Defaults ("PDs"), criteria for assessing significant increase in credit risk, segmentation of receivables if any, development of ECL models, including the various formulas and inputs, determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, Exposures at Default ("EAD") and Loss Given Default ("LGD"), selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Employees' defined benefits plans

The cost of end of service benefit plans and the present value of end of service benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions, which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The most sensitive parameters are discount rate and future salary increases. In determining the appropriate discount rate, management considers the market yield on high quality corporate bonds. Future salary increases are based on the expected future inflation rates, seniority, promotion, demand and supply in the employment market.

The mortality rate is based on publicly available local mortality tables. Those mortality tables tend to change only at intervals in response to demographic changes.

Further details about employees' end of service benefits are provided in note 19.

4 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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

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

5 SPECIAL COMMISSION INCOME

Special commission income comprises of income from the following financing products:

	2020 ***SR***	*2019* *SR*
Tawarruq	**103,762,637**	104,020,825
Ijara	**1,572,493**	2,578,940
Murabaha	**255,203**	1,718,313
	105,590,333	108,318,078

All the special commission income are from financing products which are Shariah compliant.

6 OTHER INCOME

	2020 ***SR***	*2019* *SR*
Recovery of Islamic financing receivables written-off	**10,579,454**	8,958,701
Income from early settlement fees	**4,792,367**	3,142,250
Income from short term deposits (note 8a)	**1,478,020**	3,805,025
Others	**562,651**	377,700
	17,412,492	16,283,676

7 GENERAL AND ADMINSTRATION EXPENSES

	2020	*2019*
	SR	*SR*
Salaries and employee related costs	**22,267,274**	20,297,270
Depreciation (notes 13 and 15)	**2,761,566**	2,865,904
Professional fee	**2,565,504**	2,707,840
Insurance expense	**996,269**	1,106,860
VAT expense	**784,629**	710,309
Bank charges	**757,179**	1,518,933
Amortisation (note 14)	**671,185**	511,482
Utilities expense	**651,106**	524,890
Repairs and maintenance	**636,699**	534,555
Rent expense	-	85,000
Other expenses	**2,955,914**	2,910,840
	35,047,325	33,773,883

8 CASH AND CASH EQUIVALENTS

	2020	*2019*
	SR	*SR*
Bank balances	**58,963,213**	116,553,163
Short term deposits (note "a")	**30,073,795**	39,997,590
Cash in hand	**27,749**	30,252
	89,064,757	156,581,005

a) Short term deposits represent time deposits with local banks with maturities of less than 3 months and have an average rate of return of 2.03% (2019: 2.53%) per annum. The Company earned SR 1,478,020 (2019: SR 3,805,025) (refer note 6) on these short term deposits. These deposits are unconventional in nature.

b) In line with the requirements of funding facilities granted by the bank, the Company has set aside SR 2,023,184 (2019: SR 1,873,624) as 'restricted cash'. The cash is deposited in a bank account and is not available for the Company's operational use (see note 18b).

9 PREPAYMENTS AND OTHER ASSETS

	2020	*2019*
	SR	*SR*
Receivable from sale of repossessed asset*	**7,087,901**	7,773,000
Prepaid expenses	**4,752,875**	1,153,103
Other receivables	**701,000**	628,042
Advances to employees	**212,627**	340,801
Others	**248,173**	55,023
	13,002,576	9,949,969

*The Company had a Tawarruq receivable from one of the customer who defaulted during 2019 and the Company repossessed the collateral which was a real estate property. The Company sold the repossessed property at SR 11.3 million on 60 months instalments. The balance represents the instalments receivable (net of unearned income) at the year end. There has been no default on the installment since the sale of the real estate property.

10 INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Company owns unquoted investment of 2.33% shareholding in Saudi Finance Leasing Contract Registry Company. The Company has been formed with other finance and leasing Companies registered in the Kingdom of Saudi Arabia for registration of contracts relating to financial leases and amendments and registration and transfer of title deeds of the assets under the finance leases arrangements. The investment is recorded at cost as management believes that fair value is not materially different from cost.

11 REPOSSESSED ASSETS HELD FOR SALE

During current and prior year, the Company acquired a real estate properties against defaulted Tawarruq receivables. Based on the external valuation by Olat Properties Management (OPM) and Moheet Al-Jazirah Company, of real estate properties, fair value of the related properties are more than net realisable value of Islamic financing receivables. Accordingly as at 31 December 2020, these assets are recognized at net realisable value of Islamic financing receivables amounting to SR 66.6 million (31 December 2019 – SR 4.2 million).

12 ISLAMIC FINANCING RECEIVABLES, NET

	Tawarruq receivables		*Ijara receivables*		*Murabaha receivables*		*Total*	
	2020	*2019*	***2020***	*2019*	***2020***	*2019*	***2020***	*2019*
	SR	*SR*	***SR***	*SR*	***SR***	*SR*	***SR***	*SR*
Gross Islamic financing receivables	**1,058,450,052**	823,021,199	**49,019,125**	27,189,274	**154,060**	4,742,050	**1,107,623,237**	854,952,523
Less: Unrealised profit	**(273,027,342)**	(234,009,116)	**(13,013,885)**	(7,338,512)	**(9,579)**	(393,417)	**(286,050,806)**	(241,741,045)
	785,422,710	589,012,083	**36,005,240**	19,850,762	**144,481**	4,348,633	**821,572,431**	613,211,478
Less: Allowance for impairment losses	**(27,750,535)**	(22,363,241)	**(172,875)**	(326,313)	**(12,997)**	(103,478)	**(27,936,407)**	(22,793,032)
Islamic financing receivables, net	**757,672,175**	566,648,842	**35,832,365**	19,524,449	**131,484**	4,245,155	**793,636,024**	590,418,446

All the financing facilities provided by Company are Shariah compliant, accordingly they are unconventional in nature.

An analysis of risk concentration in gross carrying amounts and corresponding ECL in the loans portfolio by type is presented below:

31 December 2020

	Gross carrying amount				***Allowance for ECL***				***ECL Coverage %***			
	Stage 1	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Tawarruq	685,651,786	40,018,914	59,752,010	**785,422,710**	5,055,529	3,244,048	19,450,958	**27,750,535**	0.7%	8.1%	32.6%	**3.5%**
Ijara	35,433,902	485,074	86,264	**36,005,240**	153,650	16,723	2,502	**172,875**	0.4%	3.4%	2.9%	**0.5%**
Murabaha	6,115	6,876	131,490	**144,481**	23	362	12,612	**12,997**	0.4%	5.3%	9.6%	**9.0%**
Total	**721,091,803**	**40,510,864**	**59,969,764**	**821,572,431**	**5,209,202**	**3,261,133**	**19,466,072**	**27,936,407**	**0.7%**	**8.1%**	**32.5%**	**3.4%**

31 December 2019

	Gross carrying amount				*Allowance for ECL*				*ECL Coverage %*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Tawarruq	452,755,785	52,457,446	83,839,925	589,053,156	2,761,050	2,549,100	17,142,462	22,452,612	0.6%	4.9%	20.4%	3.8%
Ijara	17,726,393	1,858,944	228,141	19,813,478	133,487	96,394	7,063	236,944	0.8%	5.2%	3.1%	1.2%
Murabaha	2,118,227	1,103,758	1,122,859	4,344,844	3,879	11,854	87,743	103,476	0.2%	1.1%	7.8%	2.4%
Total	472,600,405	55,420,148	85,190,925	613,211,478	2,898,416	2,657,348	17,237,268	22,793,032	0.6%	4.8%	20.2%	3.7%

12 ISLAMIC FINANCING RECEIVABLES, NET (continued)

Analysis of credit quality of Islamic financing receivables is as follows:

	2020 ***SR***	*2019* *SR*
Neither past due nor impaired	**594,156,641**	362,012,419
Past due but not impaired	**164,510,837**	169,050,712
Past due and impaired	**62,904,953**	82,148,347
	821,572,431	613,211,478

Management classifies Islamic financing receivables that are either not yet due or otherwise past due but for 90 days or less as "performing" while all receivables that are past due for more than 90 days are classified as "non-performing". Below is the breakdown of performing and non-performing Islamic financing receivables:

	2020 ***SR***	*2019* *SR*
Performing	**758,667,478**	531,063,131
Non-performing	**62,904,953**	82,148,347
	821,572,431	613,211,478

	2020 ***SR***	*2019* *SR*
Current	**277,976,183**	250,507,324
Non-current	**543,596,248**	362,704,154
	821,572,431	613,211,478

Movement in the allowance for impairment losses were as follows:

	2020 ***SR***	*2019* *SR*
At beginning of the year	**22,793,032**	13,194,852
Charge for the year	**23,440,525**	20,144,035
Written-off during the year	**(18,297,150)**	(10,545,855)
At end of the year	**27,936,407**	22,793,032

The following table shows reconciliations from the opening to the closing balance of the impairment allowance for financings to customers at amortized cost.

31 December 2020	*12 month ECL*	*Lifetime ECL not credit impaired*	*Lifetime ECL credit impaired*	*Total*
Financings to customers at amortized cost				
Balance at 1 January 2020	2,898,416	2,657,348	17,237,268	**22,793,032**
Transfer to 12 month ECL	3,232,965	(10,638)	(3,222,327)	**-**
Transfer to Lifetime ECL not credit impaired	(3,459,966)	4,019,497	(559,531)	**-**
Transfer to Lifetime ECL credit impaired	(9,117,896)	(31,270)	9,149,166	**-**
Charge for the year	11,655,683	(3,373,804)	15,158,646	**23,440,525**
Write-offs	-	-	(18,297,150)	**(18,297,150)**
Balance as at 31 December 2020	**5,209,202**	**3,261,133**	**19,466,072**	**27,936,407**

12 ISLAMIC FINANCING RECEIVABLES, NET (continued)

31 December 2019	*12 month ECL*	*Lifetime ECL not credit impaired*	*Lifetime ECL credit impaired*	*Total*
Financings to customers at amortized cost				
Balance at 1 January 2019	816,093	4,833,155	7,545,604	13,194,852
Transfer to 12 month ECL	125,307	(83,278)	(42,029)	-
Transfer to Lifetime ECL not credit impaired	(800,520)	4,306,930	(3,506,409)	-
Transfer to Lifetime ECL credit impaired	(6,437,851)	(82,442)	6,520,293	-
Charge for the year	9,195,387	(6,317,017)	17,265,665	20,144,035
Write-offs	-	-	(10,545,856)	(10,545,856)
Balance as at 31 December 2019	2,898,416	2,657,348	17,237,268	22,793,032

The terms and conditions, and credit risks associated with the Islamic financing receivables are disclosed in note 26.

13 PROPERTY AND EQUIPMENT

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

Leasehold improvement	10 years
Furniture, equipment and computers	4 years

	2020		
	Furniture, equipment and computers SR	*Leasehold improvement SR*	***Total SR***
Cost:			
At beginning of the year	4,077,988	5,635,825	**9,713,813**
Additions during the year	1,327,450	88,900	**1,416,350**
At end of the year	5,405,438	5,724,725	**11,130,163**
Accumulated depreciation:			
At beginning of the year	2,759,760	2,064,240	**4,824,000**
Charge for the year	605,437	568,143	**1,173,580**
At end of the year	3,365,197	2,632,383	**5,997,580**
Net book amounts:			
At 31 December 2020	**2,040,241**	**3,092,342**	**5,132,583**

13 PROPERTY AND EQUIPMENT (continued)

	2019			
	Furniture, equipment and computers SR	*Leasehold improvement SR*	*Capital work in progress SR*	*Total SR*
Cost:				
At beginning of the year	3,433,344	3,963,851	1,444,313	8,841,508
Additions during the year	644,644	227,661	-	872,305
Transfers during the year	-	1,444,313	(1,444,313)	-
At end of the year	4,077,988	5,635,825	-	9,713,813
Accumulated depreciation:				
At beginning of the year	2,139,152	1,520,479	-	3,659,631
Charge for the year	620,608	543,761	-	1,164,369
At end of the year	2,759,760	2,064,240	-	4,824,000
Net book amounts:				
At 31 December 2019	1,318,228	3,571,585	-	4,889,813

14 INTANGIBLE ASSETS

	2020		
	Software SR	*Capital work in progress SR*	***Total SR***
Cost:			
At beginning of the year	6,434,299	-	**6,434,299**
Additions during the year	139,568	1,289,222	**1,428,790**
At end of the year	6,573,867	1,289,222	**7,863,089**
Accumulated amortization:			
At beginning of the year	2,234,692	-	**2,234,692**
Charge for the year	671,185	-	**671,185**
At end of the year	2,905,877	-	**2,905,877**
Net book amounts:			
At 31 December 2020	**3,667,990**	**1,289,222**	**4,957,212**

Capital work in progress during the year represents software upgrade charges.

14 INTANGIBLE ASSETS (continued)

	2019		
	Software SR	*Capital work in progress SR*	***Total SR***
Cost:			
At beginning of the year	4,965,735	511,500	5,477,235
Additions during the year	957,064	-	957,064
Transfers during the year	511,500	(511,500)	-
At end of the year	6,434,299	-	6,434,299
Accumulated amortization:			
At beginning of the year	1,723,210	-	1,723,210
Charge for the year	511,482	-	511,482
At end of the year	2,234,692	-	2,234,692
Net book amounts:			
At 31 December 2019	4,199,607	-	4,199,607

15 RIGHT OF USE ASSET AND LEASE LIABIITIES

The Company have lease contracts for various office spaces. These leases generally have lease terms between 1 and 5 years.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	2020		*2019*
	Office spaces SR	***Total SR***	*Total SR*
As at 1 January	5,549,087	**5,549,087**	6,733,695
Additions during the year	1,474,959	**1,474,959**	516,927
Depreciation expense	(1,587,986)	**(1,587,986)**	(1,701,535)
At 31 December	5,436,060	**5,436,060**	5,549,087

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	2020 SR	*2019 SR*
At the beginning of the year	**5,182,133**	6,174,859
Additions during the year	**1,495,609**	516,928
Accretion of interest	**332,161**	379,713
Payments during the year	**(1,832,500)**	(1,889,367)
At the end of the year	**5,177,403**	5,182,133

15 RIGHT OF USE ASSET AND LEASE LIABIITIES (continued)

Set our below is the break-up between current and non-current portion of lease liabilities:

	2020 SR	*2019* SR
Current	**1,552,427**	1,494,637
Non-current	**3,624,976**	3,687,496
	5,177,403	5,182,133

The following are the amounts recognised in statement of comprehensive income:

	2020 SR	*2019* SR
Depreciation expense of right-of-use assets	**1,587,986**	1,701,535
Interest expense on lease liabilities	**332,161**	379,713
Total	**1,920,147**	2,081,248

16 ACCOUNTS PAYABLE, ACCRUALS AND OTHERS

	2020 SR	*2019* SR
Accrued expenses	**4,326,933**	4,201,046
Accounts payable	**2,431,863**	1,596,276
Accrued special commission expense	**1,284,605**	3,181,265
Others	**750,051**	578,745
	8,793,452	9,557,332

Terms and conditions of the above financial liabilities:

- Accounts payables are non-interest bearing and are normally settled on 60-day terms.
- Accrued special commission expenses are normally settled as and when the instalment is paid

Accrued special commission expense relates to the special commission expense against borrowings accrued until the year end.

17 RELATED PARTY TRANSACTIONS AND BALANCES

The Company's shareholders, their affiliates and key management personnel are considered as related parties of the Company. Key management personnel of the Company comprise of key members of the management having authority and responsibility for planning, directing and controlling the activities of the Company. In the ordinary course of business, the Company enters into transactions with the related parties, which are based on mutually agreed prices and contract terms approved by the Company's management.

Terms and conditions of transactions with related parties

- Outstanding balances at year-end arise in the normal course of business.

17 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Following are the major related party transactions with key management personnel during the year:

Related party	*Nature of transaction*	***2020*** ***SR***	*2019* *SR*
Key management personnel	Compensation - salaries and other incentive	**3,560,000**	3,259,000
	Loans provided using Islamic financing	**222,291**	1,966,500
	Board remuneration	**1,010,000**	1,010,000
	Provision for employees' defined benefit liabilities	**744,384**	556,063

Below are the balances receivables from key management personnel as at year end:

Key management personnel	Islamic financing receivables	**252,449**	1,882,236

18 BORROWINGS

The table below shows the details of the borrowings obtained by the Company:

		2020 ***SR***	*2019* *SR*
A	Bank borrowings	**190,147,834**	240,024,652
B	Sukuks payable	**130,331,977**	190,276,124
C	Borrowings from a government entity	**310,670,843**	36,688,047
		631,150,654	466,988,823
	Current portion	**285,690,520**	261,872,437
	Non-current portion	**345,460,134**	205,116,386
		631,150,654	466,988,823

All borrowing facilities of the Company are Shariah complaint financing arrangements.

A) The table below shows the details of the bank borrowings obtained by the Company:

	2020 ***SR***	*2019* *SR*
Islamic financing (see notes a and b below)	**194,130,190**	241,962,159
Less: unamortized upfront charges	**(3,982,356)**	(1,937,507)
	190,147,834	240,024,652
Current portion	**113,062,159**	185,184,496
Non-current portion	**77,085,675**	54,840,156
	190,147,834	240,024,652

18 BORROWINGS (continued)

Islamic financing shown above includes:

a) The balance of four (2019: four) revolving Islamic facilities for a total amount of SR 87.02 million (2019: SR 95.71 million) as at 31 December 2020 at 4% + SIBOR. Each of these facilities is for an original term of 1 year and renewable for additional periods of one year each at the lender's option up to a total of 4 years and carry special commission at floating commercial rates. The facilities are secured by assignment of receivables. Since the option to refinance or roll over the facilities is at the lender's discretion.

b) The balance of five (2019: seven) other Islamic facilities for a total amount of SR 103.12 million (2019: SR 144.3 million) as at 31 December 2020 obtained from commercial banks to finance the Islamic financing assets of the Company at a rate of interest from 2.75% to 3.5%. The facilities are secured by restricted deposit and are repayable on agreed terms (note 8 b).

c) During the year 2019, Company has taken new borrowings amounting to SR 235.5 million from various banks. There are no new borrowings during the year.

B) The table below shows the details of the sukuks payable issued by the Company:

	2020	*2019*
	SR	*SR*
Islamic financing through Sukuks	**133,433,334**	195,700,000
Less: unamortized upfront charges	**(3,101,357)**	(5,423,876)
	130,331,977	190,276,124
Current portion	**62,266,667**	58,044,282
Non-current portion	**68,065,310**	132,231,842
	130,331,977	190,276,124

In February 2018, the Company issued Sukuk with an aggregate principal of SR 178 million. The Sukuk carry a fixed rate of interest at 8% per annum due for settlement on a quarterly basis. The Sukuk's principal is due to be repaid in quarterly instalments commencing from May 2018, with the final instalment due in February 2023.

In December 2019, the Company issued a new Sukuk with an aggregate principal of SR 80 million. The Sukuk carry a fixed rate of interest at 6% per annum due for settlement on a quarterly basis. The Sukuk's principal is due to be repaid in quarterly instalments commencing from March 2020, with the final instalment due in December 2022.

Both the Sukuks are secured by assignment of Islamic financing receivables.

C) The table below shows the details of the loans obtained by the Company from a government entity:

	2020	*2019*
	SR	*SR*
Current portion	**110,361,694**	18,643,661
Non-current portion	**200,309,149**	18,044,386
	310,670,843	36,688,047

During September 2018 and December 2018, the Company received loans from the Social Development Bank (government entity) amounting to SR 20 million and SR 36 million, respectively. The loans are repayable in monthly instalments commencing from December 2018 and April 2019, respectively, with the final instalment due in November 2021 and March 2022, respectively.

18 BORROWINGS (continued)

During 2020, the Company has participated in funding for lending program by SAMA and received funding in 12 instalments total of SR 177 million funding from SAMA which is interest free funding with varying maturities, starting from September 2023 to May 2024. Refer to note 27.

The above loans received by the Company from a Social Development Bank carries special commission at rates significantly lower than the currently prevailing market rates while the loan received from SAMA is interest free. These loans provided to the Company carry a number of conditions, one of which is that these loans are to be used for providing loans to specific types/sectors of customers at discounted rates. The benefit being the impact of the "lower than market value" or "interest free" loans obtained by the Company had been identified and accounted for as "government grant" and has initially been recorded as deferred income and classified within "accounts payables, accruals and others". Such benefit is being recognised in statement of comprehensive income of the Company on a systematic basis as the expense, for which such grant is intended to compensate.

Further, during 2020, the Company obtained loans from Social Development Bank amounting to SR 150 million at the prevailing market rates at 2.32% to 3.56%. The maturity of the loans starting from June 2023 to October 2025.

19 EMPLOYEES' DEFINED BENEFIT LIABILITIES

The following tables summaries the components of employees' defined benefit liabilities recognised in the statement of comprehensive income and statement of financial position:

a) *Amount recognised in the statement of financial position:*

	2020	*2019*
	SR	*SR*
Present value of employees' defined benefit liabilities	**3,115,107**	2,381,291

b) *Benefit expense (recognised in statement of comprehensive income):*

	2020	*2019*
	SR	*SR*
Current service cost	**780,046**	634,041
Special commission expense	**76,720**	48,246
Benefit expense	**856,766**	682,287

c) *Movement in the present value of employees' defined benefit liabilities:*

	2020	*2019*
	SR	*SR*
Present value of employees' defined benefit liabilities at beginning of the year	**2,381,291**	1,492,876
Charge recognised in statement of comprehensive income		
Current service cost	**780,046**	634,041
Special commission expense	**76,720**	48,246
Actuarial loss on recognised in the statement of other comprehensive income	**(68,416)**	285,510
Benefits paid	**(54,534)**	(79,382)
Present value of employees' defined benefit liabilities at end of the year	**3,115,107**	2,381,291

19 EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)

d) Principal actuarial assumptions:

Key assumptions used in the actuarial valuation:

	2020 ***SR***	*2019* *SR*
Discount rate	**2.67%**	3.32%
Salary growth rate	**2.67%**	3.32%
Retirement age (years)	**60**	60
Plan duration (years)	**11.15**	10
Mortality rate	**SA16 – 75%**	SA16 – 75%

e) Sensitivity analysis

A qualitative sensitivity analysis for significant assumptions is as shown:

31 December 2020	***Impact on defined benefit obligation – increase / (decrease)***		
Base Scenario	***Change in assumption***	***Increase in assumption***	***Decrease in assumption***
Discount rate	+/- 50 basis points	(167,093)	182,843
Expected rate of salary increase	+/- 50 basis points	181,906	(167,872)
Withdrawal rate	+/- 100 basis points	(44,667)	47,645
Life expectancy	+/- 1 year	2,997	(1,399)

31 December 2019	*Impact on defined benefit obligation – increase / (decrease)*		
Base Scenario	*Change in assumption*	*Increase in assumption*	*Decrease in assumption*
Discount rate	+/- 50 basis points	(139,802)	153,131
Expected rate of salary increase	+/- 50 basis points	152,357	(140,456)
Withdrawal rate	+/- 100 basis points	(38,984)	41,419
Life expectancy	+/- 1 year	(1,301)	2,697

The most recent actuarial valuation was performed by an independent, qualified actuary "Global Advisory" using the projected unit credit method. The Actuaries and Consultants are licensed from the "Fellow of Society of Actuaries, USA".

The following are the expected payments or contributions to the defined benefit plan in future years:

	2020 ***SR***	*2019* *SR*
Within the next 12 months (next annual reporting period)	**483,398**	293,008
Between 1 and 2 years	**147,686**	125,853
Between 2 and 5 years	**659,332**	530,809
Beyond 5 years	**3,031,942**	2,780,839
Total expected payments	**4,322,358**	3,730,509

20 SHARE CAPITAL

Share capital is divided into 28.05 million shares (2019: 25.50 million shares) of SR 10 each.

During 2020, the Company issued 2.55 million shares of SR 10 each thus increasing share capital of the Company from SR 255 million to SR 280.5 million through the transfer of SR 25,500,000 from retained earnings.

The capital increase was executed pursuant to the Extra Ordinary General Meeting resolution dated 28 Sha'aban 1441H (corresponding to 21 April 2020) and SAMA approval numbered 41049099 dated 15 Rajab 1441H (corresponding 10 March 2020). The legal formalities of the increase in share capital were completed in second quarter of 2020.

21 STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies, the Company must set aside 10% of its income after zakat in each year to statutory reserve until it has built up a reserve equal to 30% of the share capital. The reserve is not available for distribution.

22 EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended 31 December 2020 and 2019 are calculated by dividing the net income for the years by the weighted average number of shares 27,274,521 (2019: 23,780,668) outstanding during the year.

23 ZAKAT

Charge for the year
The movement in the zakat provision for the year was as follows:

	2020	*2019*
	SR	*SR*
At beginning of the year	**3,137,744**	-
Charge for the year	**5,873,024**	6,611,673
Paid during the year	**(1,822,040)**	-
Transfer to prepaid zakat	-	(3,473,929)
At end of the year	**7,188,728**	3,137,744

Status of assessments
The Company has filed its zakat returns with the General Authority of Zakat and Income Tax ("GAZT") for all previous years up to 2019. The Company had obtained its zakat assessments for all the years until 2017 while the assessments for the years 2018 and 2019 are still under review by the GAZT.

24 CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base to maintain creditor and market confidence and to sustain future development of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders. The Company's objectives for managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing the services commensurately with the level of risk.

The primary objective of the Company's capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. The Company informally monitors capital using a gearing ratio, which is 'net debt' divided by total capital plus net debt. The Company includes within net debt, short term loans, trade and other payables, less cash and bank balances.

24 CAPITAL MANAGEMENT (continued)

	2020	*2019*
	SR	*SR*
Accounts payable, accruals and others	**8,793,452**	9,557,332
Provision for zakat	**7,188,728**	3,137,744
Borrowings	**631,150,654**	466,988,823
Lease liabilities	**5,177,403**	5,182,133
Employees' defined benefit liabilities	**3,115,107**	2,381,291
Less: Bank balances and cash	**(89,064,757)**	(156,581,005)
Net debt	**566,360,587**	330,666,318
Equity	**325,326,153**	291,316,040
Capital and net debt	**891,686,740**	621,982,358
Gearing ratio	**64%**	53%

25 FINANCIAL INSTRUMENTS AND FAIR VALUE

Financial instruments comprise financial asset and financial liabilities.

Financial assets consist of cash and cash equivalents, restricted cash deposits, Islamic financing receivables, investment and other receivables. Financial liabilities consist of borrowings, shareholders' loans and accounts payable, accruals and others.

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

Following table indicates fair value level hierarchy of the financial instruments of the Company. Islamic financing receivables, investment at FVOCI and borrowings are classified within level 3 of the fair value hierarchy while the rest of the financial assets and financial liabilities included in the below table are classified within level 2 of the fair value hierarchy. Management believes that the fair value of the financial assets and liabilities included in the table below at the reporting date, approximate their carrying values mainly due to the short maturities of most of these financial assets and liabilities.

25 FINANCIAL INSTRUMENTS AND FAIR VALUE (continued)

	2020 ***SR***	*2019* *SR*
Financial assets		
Cash and cash equivalents	**89,064,757**	156,581,005
Restricted cash deposits	**2,023,184**	1,873,624
Other assets (excluding special commission receivable)	**7,548,701**	8,168,826
Financial liabilities		
Accounts payables, accruals and others (excluding accrued special commission expense)	**7,508,848**	6,376,067

For assets and liabilities that are recognised at fair values in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

There have been no transfers to and from Level 2 and 3 during the current and prior year.

Fair value of the Islamic financing receivables (including special commission receivable)

	2020 Carrying value SR	***2020 Fair value SR***	*2019 Carrying value SR*	*2019 Fair value SR*
Financial assets				
Islamic financing receivables	**793,636,024**	**832,732,972**	590,418,446	609,677,304

For determination of the fair value of Islamic financing receivables, management assesses the market under the current conditions, and assesses the profit rates that the Company could obtain against its current portfolio. The portfolio is segregated into various categories. The profit rates over the last 5 years have been assessed and used as a base for the discount rate relating to the valuation of the portfolio. Premiums have then been added to each category based on the prevailing economic conditions in the country. The premiums move from 50 basis points to 250 basis points.

The initial base rate, before premiums, were calculated using the average quoted rate against contracts for the last 5 years. This quoted rate was compared to the average effective yield that the contracts generate to derive the factor to translate the quoted rate to an effective rate in order to lift the base rate from a quoted rate to an effective rate. The average of the quoted rate for the Company's portfolio over this period was 15.06% (2019: 15.98 %), and the average effective rate for this same portfolio was 16.5% (2019: 17.23%), resulting in a lift factor of 0.74x (2019: 1.08x).

Deemed premium for each category has been added to the base quoted rate, and the lift factor was applied to arrive at the effective yield which was used as a proxy discount rate to fair value the portfolio.

The cash flows of each category were discounted using the proxy discount rate applicable to each category to arrive at the fair value of the portfolio. Provision carried against the portfolio was then deducted to compare the carrying value to the deemed fair value.

The discount rates used range from 20.29% to 22.29% (2019: 17.76% to 19.9%).

25 FINANCIAL INSTRUMENTS AND FAIR VALUE (continued)

Fair value of Borrowings (including accrued special commission expense):

The fair value of bank borrowings, sukuk payable and government loans is based on discounted value of expected future cash flows using the applicable market rates for similar types of instrument as of reporting date. The table below shows the fair value of bank borrowings as at 2020 and 2019, respectively.

	2020 Carrying value SR	***2020 Fair value SR***	*2019 Carrying value SR*	*2019 Fair value SR*
Financial liabilities				
Bank borrowings	**190,147,834**	**199,922,851**	240,024,652	246,462,977
Sukuk payable	**130,331,977**	**147,317,224**	190,276,124	213,135,122
Loans from a government entity	**310,670,843**	**318,904,594**	36,688,047	36,688,048

Fair Value of Investment at FVOCI

Management believes that the fair value of investment at FVOCI approximates its carrying value.

26 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including special commission rate risk and foreign currency risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by management. The most important types of risk are summarized below.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables.

The Company's maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as disclosed in the table below.

	2020 SR	*2019 SR*
Cash and cash equivalents	**89,064,757**	156,581,005
Restricted cash deposit	**2,023,184**	1,873,624
Islamic financing receivables, net	**793,636,024**	590,418,446
Other assets	**7,513,701**	8,796,868
	892,237,666	757,669,943

26 FINANCIAL RISK MANAGEMENT (continued)

Credit quality analysis
The following table sets out information about the credit quality of Islamic financing receivables measured at amortised cost:

	2020	*2019*
	SR	*SR*
Neither past due nor impaired	**594,156,641**	362,012,419
Past due but not impaired:		
From 1 day to 30 days	**129,283,980**	127,049,150
From 31 day to 90 days	**35,226,857**	42,001,562
Past due and impaired	**62,904,953**	82,148,347
	821,572,431	613,211,478

a) Gross carrying value of Islamic financing receivable before ECL

	12 month ECL	*Life time ECL not credit impaired*	*Lifetime ECL credit impaired*	*Total*
	SR	*SR*	*SR*	*SR*
31 December 2020	**721,091,803**	**40,510,864**	**59,969,764**	**821,572,431**
31 December 2019	489,061,569	52,103,674	72,046,235	613,211,478

b) Allowance for ECL

	12 month ECL	*Life time ECL not credit impaired*	*Lifetime ECL credit impaired*	*Total*
	SR	*SR*	*SR*	*SR*
31 December 2020	**5,209,202**	**3,261,133**	**19,466,072**	**27,936,407**
31 December 2019	2,898,416	2,657,348	17,237,268	22,793,032

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

26 FINANCIAL RISK MANAGEMENT (continued)

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

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

a) Generating the term structure of PD
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors include GDP growth, benchmark interest rates, unemployment etc.

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

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

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

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

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

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

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

26 FINANCIAL RISK MANAGEMENT (continued)

Credit risk grades (continued)

The Company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Company recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Company recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected behavioral maturity profile including restructuring or rescheduling of facilities.

Stage 3: for credit-impaired financial instruments, the Company recognises the lifetime ECL. Default identification process i.e. DPD of 121 or more is assumed to be stage 3.

c) Modified financial assets

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

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

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending other terms of financing.

Forbearance is a qualitative indicator of a significant increase in credit risk, and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behavior over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default.

d) Definition of ‘Default’

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

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

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

26 FINANCIAL RISK MANAGEMENT (continued)

Credit risk grades (continued)

e) Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information from published sources, the Company formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macroeconomic models.

The Company considers scenarios in range of 3-5 years horizon (consistent with forecasts available from public sources), beyond which the long term average macroeconomic conditions prevail. Externally available macroeconomic forecasts from International Monetary Fund (IMF) and Saudi Central Bank (SAMA) are used for making the base case forecast. For other scenarios, adjustments are made to base case forecasts based on expert judgement.

The base case represents a most-likely outcome as published by external sources. The other scenarios represent more optimistic and more pessimistic outcomes.

f) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the variables set out below. These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on models and assessed using tools tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

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

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

The Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options), depending on exposure’s rating classification over which it is exposed to credit risk.

g) Governance and controls

In addition to the existing risk management framework, the Company has established a Management Committee for oversight of IFRS 9 impairment process that includes representation from Finance, as well as the involvement of subject matter experts in the areas of methodology reviews, data sourcing, risk modelling, and formulating judgements with respect to the aspects of significant increase in credit risk determination, macroeconomic assumptions and forward looking factors.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that bank facilities are available.

26 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Company's financial liabilities at the reporting date based on contractual undiscounted repayment obligations. The contractual maturities of financial liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date.

	Within 3 months SR	*3 to 12 months SR*	*1 to 5 years SR*	*Total SR*
31 December 2020				
Accounts payable, accruals and others*	**6,724,709**	**268,314**	**515,824**	**7,508,847**
Borrowings*	**38,531,175**	**248,307,573**	**345,460,134**	**632,298,882**
	45,255,884	**248,575,887**	**345,975,958**	**639,807,729**
31 December 2019				
Accounts payable, accruals and others*	5,104,730	755,513	515,824	6,376,067
Borrowings*	66,081,047	195,791,390	205,116,386	466,988,823
	71,185,777	196,546,903	205,632,210	473,364,890

* Accrued special commission expense as at the reporting date has been included as part of Borrowings for the purpose of above disclosure.

Analysis of financial assets and liabilities according to when they are expected to be recovered or settled

The table shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled:

	Within 3 months SR	*3 to 12 months SR*	*1 to 5 years SR*	*No fixed maturity SR*	*Total SR*
31 December 2020					
Cash and cash equivalents	**89,064,757**	-	-	-	**89,064,757**
Restricted cash deposit	**2,023,184**	-	-	-	**2,023,184**
Investment at fair value through OCI	-	-	-	**892,850**	**892,850**
Islamic financing receivables	**23,268,065**	**253,392,418**	**516,975,541**	-	**793,636,024**
Other assets	**4,018,794**	**4,693,929**	**9,725,913**	**76,696,046**	**95,134,682**
Financial assets	**118,374,800**	**258,086,347**	**526,701,454**	**77,588,896**	**980,751,497**
Accounts payable, accruals and others	**8,009,614**	**268,014**	**515,824**	-	**8,793,452**
Borrowings	**37,382,947**	**248,307,573**	**345,460,134**	-	**631,150,654**
Lease liabilities	**126,303**	**1,426,124**	**3,624,976**	-	**5,177,403**
Other liabilities	-	**7,188,728**	-	**3,115,107**	**10,303,835**
Financial liabilities	**45,518,864**	**257,190,439**	**349,600,934**	**3,115,107**	**655,425,344**
Maturity gap	**72,855,936**	**895,908**	**177,100,520**	**74,473,789**	**325,326,153**
Cumulative maturity gap	**72,855,936**	**73,751,844**	**250,852,364**	**325,326,153**	

26 FINANCIAL RISK MANAGEMENT (continued)

	Within 3 months SR	*3 to 12 months SR*	*1 to 5 years SR*	*No fixed maturity SR*	*Total SR*
31 December 2019					
Cash and cash equivalents	156,581,005	-	-	-	156,581,005
Restricted cash deposit	1,873,624	-	-	-	1,873,624
Investment at fair value through OCI	-	-	-	892,850	892,850
Islamic financing receivables	64,806,170	174,643,297	350,968,979	-	590,418,446
Other assets	2,364,221	2,830,687	10,304,147	13,298,383	28,797,438
Financial assets	225,625,020	177,473,984	361,273,126	14,191,233	778,563,363
Accounts payable, accruals and others	8,494,385	547,123	515,824	-	9,557,332
Borrowings	66,081,047	195,791,390	205,116,386	-	466,988,823
Lease liabilities	333,089	999,266	3,849,778	-	5,182,133
Other liabilities	-	3,137,744	-	2,381,291	5,519,035
Financial liabilities	74,908,521	200,475,523	209,481,988	2,381,291	487,247,323
Maturity gap	150,716,499	(23,001,539)	151,791,138	11,809,942	291,316,040
Cumulative maturity gap	150,716,499	127,714,960	279,506,098	291,316,040	

Special commission rate risk

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market special commission rates. The Company is subject to special commission rate risk on its special commission bearing assets and liabilities, including Islamic financing receivables and borrowings.

All of the Company's special commission bearing assets, sukuk payable and loans from a government entity carry special commission at fixed rates and therefore, management believes that the Company is not exposed to any special commission rate risk in respect of these assets.

All other borrowings of the Company carry special commission at variable rates. The Company uses derivative financial instruments (special commission rate swap) to hedge the Company's exposure to the fluctuations in special commission rates in respect of some of these borrowings and therefore management believes that the Company is not exposed to special commission rate risk in respect of such borrowings.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Company's profit or loss relating to the floating rate borrowings for which the Company does not use derivatives for hedging. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net commission income for one year, based on such floating rate borrowings held as at the reporting date.

	2020	
	Change in basis points	***Impact on net income SR***
Saudi Riyals	+50	**(883,383)**
Saudi Riyals	-50	**883,383**

26 FINANCIAL RISK MANAGEMENT (continued)

Special commission rate risk (continued)

	2019	
	Change in basis points	*Impact on net income SR*
Saudi Riyals	+50	(478,565)
Saudi Riyals	-50	478,565

The Company is exposed to risks associated with the fluctuations in the levels of market special commission rates. The table below summarizes the Company's exposure to special commission rate risks. Included in the table are the Company's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. The Company is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that reprice or mature in a given period. The Company manages this risk by matching the repricing of assets and liabilities through risk management strategies.

	2020				
	Within 3 months SR	***3 -12 months SR***	***1 to 5 years SR***	***Non commission bearing SR***	***Total SR***
Assets					
Cash and cash equivalents	**89,064,757**	-	-	-	**89,064,757**
Restricted cash deposits	**2,023,184**	-	-	-	**2,023,184**
Prepayments and other assets	**3,621,798**	**3,502,939**	**5,877,839**	-	**13,002,576**
Investment at FVOCI	-	-	-	**892,850**	**892,850**
Islamic financing receivables	**23,268,065**	**253,392,418**	**516,975,541**	-	**793,636,024**
Repossessed asset held for sale	-	-	-	**66,606,251**	**66,606,251**
Right to use assets	-	-	-	**5,436,060**	**5,436,060**
Property and equipment	-	-	-	**5,132,583**	**5,132,583**
Intangible assets	-	-	-	**4,957,212**	**4,957,212**
Total assets	**117,977,804**	**256,895,357**	**522,853,380**	**83,024,956**	**980,751,497**
Liabilities					
Accounts payable, accruals and others	-	-	-	**8,793,452**	**8,793,452**
Provision for zakat	-	-	-	**7,188,728**	**7,188,728**
Lease liabilities	**126,303**	**1,426,124**	**3,624,976**	-	**5,177,403**
Borrowings	**37,382,947**	**248,307,573**	**345,460,134**	-	**631,150,654**
Employees' terminal benefits	-	-	-	**3,115,107**	**3,115,107**
Total liabilities	**37,509,250**	**249,733,697**	**349,085,110**	**19,097,287**	**655,425,344**
Total special commission rate sensitivity gap	**80,468,554**	**7,161,660**	**173,768,270**	**63,927,669**	**325,326,153**
Cumulative special commission rate sensitivity gap	**80,468,554**	**87,630,214**	**261,398,484**	**325,326,153**	

26 FINANCIAL RISK MANAGEMENT (continued)

Special commission rate risk (continued)

	2019				
	Within 3 months SR	*3 -12 months SR*	*1 to 5 years SR*	*Non commission bearing SR*	*Total SR*
Assets					
Cash and cash equivalents	39,997,590	-	-	116,583,415	156,581,005
Restricted cash deposits	-	-	-	1,873,624	1,873,624
Prepayments and other assets	525,750	1,577,250	5,670,000	2,176,969	9,949,969
Investment at FVOCI	-	-	-	892,850	892,850
Islamic financing receivables	64,806,170	174,643,297	350,968,979	-	590,418,446
Repossessed asset held for sale	-	-	-	4,208,962	4,208,962
Right to use assets	-	-	-	5,549,087	5,549,087
Property and equipment	-	-	-	4,889,813	4,889,813
Intangible assets	-	-	-	4,199,607	4,199,607
Total assets	105,329,510	176,220,547	356,638,979	140,374,327	778,563,363
Liabilities					
Accounts payable, accruals and others	-	-	-	9,557,332	9,557,332
Provision for zakat	-	-	-	3,137,744	3,137,744
Lease liabilities	333,089	999,266	3,849,778	-	5,182,133
Borrowings	66,081,047	195,791,390	205,116,386	-	466,988,823
Employees' terminal benefits	-	-	-	2,381,291	2,381,291
Total liabilities	66,414,136	196,790,656	208,966,164	15,076,367	487,247,323
Total special commission rate sensitivity gap	38,915,374	(20,570,109)	147,672,815	125,297,960	291,316,040
Cumulative special commission rate sensitivity gap	38,915,374	18,345,265	166,018,080	291,316,040	

Foreign currency risk
Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is not subject to fluctuations in foreign exchange rates in the normal course of its business as it does not have any significant financial assets and liabilities denominated in foreign currency.

27 SAMA SUPPORT PROGRAMS AND INITIATIVES

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

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

27 SAMA SUPPORT PROGRAMS AND INITIATIVES (continued)

Deferred payments program:
As part of the deferred payments program launched by SAMA, the Company was required to defer payments for a total of nine months (original deferment for six months was followed on by a further extension of three months) on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. This program is only applicable on customers with Stage 1 exposures as at 14 March 2020 under IFRS 9. The Company effected the payment reliefs by extending the tenure of the applicable loans granted with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of special commission income.

Further to the above, on December 2020 SAMA extended the deferred payment program until 31 March 2021. The Company has effected the payment reliefs by extending the tenure of the applicable loans granted with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in the Company recognizing an additional modification loss of SR 4.1 million.

As a result of the above program and related extensions, the Company has deferred the payments SR 102.8 million on MSMEs portfolio and accordingly, has recognised total modification losses of SR 17.3 million during the year.

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

The Company has exposure of SR 347 million, SR 6 million and SR 35.6 million in stage 1, stage 2 and stage 3 for MSMEs customers with the corresponding provision against these exposure of SR 4.7 million, SR 2.3 million and SR 18 million respectively.

In order to compensate the modification loss that the Company is expected to incur in deferring the payments, the Company as an SME, received option to defer payments for twelve months (including extension referred above) from its bank borrowings. The Company has effected this by deferring the instalments falling in the same twelve months period. This has resulted in the Company recognising a day 1 modification gain of SR 14.2 million. As at 31 December 2020, Company offset SR 10.9 million as unwinding of recorded modified gain. The net impact of day 1 modificaion gain and unwinding of recorded modified gain has been presented as part of special commission income

Funding for lending program:
The Company has received SAR 177 million from SAMA for granting credit facilities to eligible MSMEs under Funding for Lending program. The funding received qualified for the government grant treatment. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 16.05 million, which has been recognized in the statement of comprehensive income as day 1 gain.

The management has exercised certain judgements in the recognition and measurement of above modification loss, gain and government grant.

28 EVENTS AFTER THE REPORTING PERIOD

No events have occurred subsequent to the reporting date and before the issuance of these financial statements which requires adjustment to, or disclosure, in these financial statements.

29 COMPARITIVE INFORMATION

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

30 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 21 February 2021 (corresponding to 9 Rajab 1442H).