AMLAK INTERNATIONAL FOR
REAL ESTATE FINANCE COMPANY
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2020
together with the
INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the Shareholders of Amlak International for Real Estate Finance Company (A Saudi Joint Stock Company)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Amlak International for Real Estate Finance Company ("the Company"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory notes from 1 to 31.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics as 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.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of the most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, a description of how our audit addressed the matter is provided in that context:

The key audit matter	How the matter was addressed in our audit
Expected credit loss allowance against Murabaha receivables, Ijara receivables and Ijara mowsofa fi athema receivables As at 31 December 2020, the gross Murabaha receivables, Ijara receivables and Ijara Mowsofa fi athema receivables before impairment were SAR 141 million, SAR 3,222 million and SAR 82 million respectively, against which an expected credit loss ("ECL") allowance of SAR 4.2 million, SAR 87.2 million and SAR 2.3 million respectively, was maintained.	We obtained and updated our understanding of management's assessment of ECL allowance against Murabaha receivables, Ijara receivables and Ijara mowsofa fi athema receivables including the Company's internal rating model, accounting policy, model methodology including any key changes made in light of the COVID-19 pandemic.

Independent Auditor's Report

To the Shareholders of Amlak International for Real Estate Finance Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (Continued)

The key audit matter	How our audit addressed the key audit matter
The determination of ECL involves significant management judgement, and this has a material impact on the financial statements of the Company. Moreover, the COVID-19 pandemic has resulted in heightened uncertainty regarding the economic outlook in particular and hence has increased the levels of judgement needed to determine the ECL. The key areas of judgement include: 1 Categorisation of receivables into Stages 1, 2 and 3 based on the identification of: • exposures with a significant increase in credit risk ("SICR") since their origination; and • individually impaired / default exposures. In accordance with the requirements of IFRS 9, the Company measures ECL based on the credit losses expected to arise over the next twelve months ('12 month ECL'), unless there has been a significant increase in credit risk since origination or default, in which case, the allowance is based on the ECL expected to arise over the life of the loans and advances ('Lifetime ECL'). The Company has applied additional judgements to identify and estimated the likelihood of customers that may have experienced SICR notwithstanding the various government support programs that resulted in deferrals to certain counterparties. The deferrals were not deemed to have triggered SICR by themselves. 2 Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), including but not limited to assessment of the financial condition of counterparties, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities weightages. 3 The application of overlays, where appropriate, to model-driven ECL to reflect all relevant risk factors that might not be captured by the ECL model. We considered this as a key audit matter as the application of these judgments, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as of 31 December 2020.	We compared the Company's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9. We evaluated the design and implementation, and tested the operating effectiveness of the key controls over: • the ECL model, including governance over the model, including approval of key assumptions and post model adjustments, if any; • the classification of borrowers into various stages and timely identification of SICR and the determination of default / individually impaired exposures; and • the integrity of data inputs into the ECL model. For a sample of customers, we assessed: • the internal ratings determined by management based on the Company's internal rating model and considered these assigned ratings in light of external market conditions and available industry information in particular, with reference to the impacts of the COVID-19 pandemic and also assessed that these were consistent with the ratings used as input in the ECL model; • the staging as identified by management; and • management's computations for ECL. We assessed the Company's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the staging classification of the Company's receivables portfolio including for customers who were eligible for deferral of instalments under government support programs with specific focus on customers operating in sectors most affected by the COVID-19 pandemic. We assessed the governance process implemented and the qualitative factors considered by the Company when applying any overlays or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise. We assessed the reasonableness of underlying assumptions used by the Company in the ECL model including forward looking assumptions keeping in view the uncertainty and volatility in economic scenarios due to the COVID-19 pandemic. We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2020.

Independent Auditor's Report

To the Shareholders of Amlak International for Real Estate Finance Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (Continued)	
The key audit matter	**How our audit addressed the key audit matter**
Refer to the summary of significant accounting policies note 3(h) for the impairment of financial assets; note 2(d)(i) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Company; note 24(1) which contains the disclosure of impairment against these receivables, credit quality analysis and key assumptions, factors considered in determination of ECL and the impact of COVID -19 on ECL.	Where relevant, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing reasonableness of assumptions used in ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights. We assessed the adequacy of disclosures in the financial statements.
SAMA support program and related government grant In response to the COVID-19 pandemic, the Saudi Central Bank ("SAMA") launched a number of initiatives including the Private Sector Financing Support Program ("PSFSP"). The PSFSP was launched in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME"). The PSFSP included deferred payments program whereby the Company deferred the instalment payable by MSMEs during a period from 14 March 2020 to 31 March 2021. In order to compensate the Company with respect to the losses incurred in connection with the above PSFSP, the Company has received deferral on its borrowing for a period from 14 March to 14 September 2020 and thereafter the Company has received profit-free deposits of varying maturities amounting in aggregate to SR 157 million. The difference between market value of deposits calculated using market rates of deposits of similar size and tenure and the profit-free deposits has been considered as a government grant and accounted for in accordance with the International Accounting Standard 20: Government Grants ("IAS 20"). We considered the accounting treatment of the SAMA support programme and government grant as a key audit matter because: ➢ These deposits significant events and material transactions that occurred during the period and thereby required significant auditors' attention; and ➢ The recognition and measurement of government grant involved significant management judgement including but not limited to: • determining the appropriate discount rate to be used to calculate the grant income on the deposit; and	We obtained an understanding of the various programs and initiatives taken by SAMA during the year ended 31 December 2020 in response to COVID-19 pandemic, and assessed the objectives of the SAMA deposits received by the Company in relation thereto to the appropriateness of the application of IAS 20 (and recognition of government grant) by the Company. We obtained the details of the deposits received during the year by the Company. We assessed the reasonableness of the relevant discount rate used for the computation of government grant. We tested the accuracy of the government grant computation and assessed the basis for the timing of recognition of the government grant being at a point in time or over a period thereby matching the expense/ related costs for which the government grant was intended to compensate. We assessed the adequacy of related disclosures in the financial statements.

Independent Auditor's Report

To the Shareholders of Amlak International for Real Estate Finance Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (Continued)

The key audit matter	How our audit addressed the key audit matter
• identifying the objective of each individual deposit to determine the timing of recognition of the grant. *Refer to the significant accounting policy note 3(x) to the financial statements relating to government grant accounting and note 29 which contains the disclosure of SAMA support programme and details of the government grant received over the year from SAMA.*	

Other Information

The Board of Directors of the Company ('the Directors') are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance (i.e the Board of Directors of the Company).

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent Auditor's Report

To the Shareholders of Amlak International for Real Estate Finance Company (A Saudi Joint Stock Company) (continued)

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Based on the information that has been made available to us, 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 Regulations for Companies, and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements for the year ended 31 December 2020.

For KPMG Al Fozan & Partners
Certified Public Accountants

Fahad Mubarak Al Dossari
License No.: 469

Al Riyadh, 13 Rajab 1442H
Corresponding to: 25 February 2021

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(SR '000)

	Notes	2020	2019
ASSETS			
Cash and cash equivalents	4	**25,051**	7,876
Investments	5	**10,496**	11,922
Murabaha receivables, net	6	**137,148**	123,450
Ijara receivables, net	7	**3,135,041**	3,016,729
Ijara mawsofa fi athemmah receivables, net	8	**80,078**	57,449
Prepayments and other assets	9	**131,354**	127,647
Property, equipment and right of use assets, net	10	**61,191**	60,061
Positive fair value of derivatives	12	**--**	71
TOTAL ASSETS		**3,580,359**	3,405,205
LIABILITIES AND EQUITY			
Account payables and other accruals	11	**126,387**	147,829
Negative fair value of derivatives	12	**11,255**	3,621
Zakat and income tax payable	13	**31,847**	34,380
Borrowings	14	**2,094,670**	2,080,432
SAMA deposit, net	29	**152,181**	--
Employees' end of service benefits	15	**15,592**	13,666
TOTAL LIABILITIES		**2,431,932**	2,279,928
Share capital	16	**906,000**	906,000
Statutory reserve	17	**78,306**	68,416
Cash flow hedge reserve	12	**(11,255)**	(3,550)
Retained earnings		**175,376**	154,411
TOTAL EQUITY		**1,148,427**	1,125,277
TOTAL LIABILITIES AND EQUITY		**3,580,359**	3,405,205

Tawfiq Moafa
Chief Financial Officer

Abdullah Al Sudairy
Chief Executive Officer

Abdullah Al Howaish
Chairman

The accompanying notes 1 to 31 form an integral part of these financial statements

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020
(SR '000)

	Notes	**2020**	2019
INCOME			
Income from Murabaha contracts		**14,541**	8,607
Income from Ijara contracts		**240,504**	259,884
Income from Ijara mawsofa fi athemmah contracts		**7,467**	5,529
Gain on sale of portfolio		**1,459**	9,158
Fees and commission income		**14,752**	13,167
Total income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah		**278,723**	296,345
EXPENSES			
Finance cost		**(65,100)**	(93,767)
Fee expense		**(2,636)**	(2,843)
Net income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah		**210,987**	199,735
Other operating loss			
Other loss		**(2,014)**	(876)
		208,973	198,859
OPERATING EXPENSES			
Depreciation	*10*	**(6,418)**	(3,501)
General and administrative expenses	*21*	**(70,821)**	(78,404)
Selling and marketing expenses	*22*	**(10,912)**	(13,143)
Impairment charge for expected credit losses, net		**(5,428)**	(1,752)
Net income for the year before zakat and income tax		**115,394**	102,059
Zakat and income tax expense:			
- Current year	*13*	**(16,494)**	(15,441)
- Prior year	*13*	**--**	(16,608)
NET INCOME FOR THE YEAR		**98,900**	70,010
Basic and diluted earnings per share (SR)	*19*	**1.09**	0.77

Tawfiq Moafa
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Chief Executive Officer

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AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020
(SR '000)

	Note	**2020**	2019
NET INCOME FOR THE YEAR		**98,900**	70,010
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to statement of profit or loss in subsequent years:			
Net movement in cash flow hedges		**(7,705)**	(4,637)
Items that will not to be reclassified to statement of profit or loss in subsequent years:			
Actuarial (loss) / gain on defined benefit plan	*15*	**(95)**	944
Total other comprehensive income		**(7,800)**	(3,693)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**91,100**	66,317

Tawfiq Moafa
Chief Financial Officer

Abdullah Al Sudairy
Chief Executive Officer

Abdullah Al Howaish
Chairman

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AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020
(SR '000)

	Share Capital	Statutory reserve	Fair value reserve investment at FVOCI	Cash flow hedge reserve	Retained earnings	Total
For the year ended 31 December 2020						
Balance at 1 January 2020	906,000	68,416	--	(3,550)	154,411	1,125,277
Net income for the year	--	--	--	--	98,900	98,900
Other comprehensive income	--	--	--	(7,705)	(95)	(7,800)
Total comprehensive income	--	--	--	(7,705)	98,805	91,100
Transfer to statutory reserve (note 17)	--	9,890	--	--	(9,890)	--
Dividend (note 18)	--	--	--	--	(67,950)	(67,950)
Balance at 31 December 2020	906,000	78,306	--	(11,255)	175,376	1,148,427
For the year ended 31 December 2019						
Balance at 1 January 2019	906,000	61,415	(409)	1,087	158,817	1,126,910
Impact of adoption of new standard and other adjustments at 1 January 2019	--	--	409	--	(409)	--
Net income for the year	--	--	--	--	70,010	70,010
Other comprehensive income	--	--	--	(4,637)	944	(3,693)
Total comprehensive income	--	--	--	(4,637)	70,954	66,317
Transfer to statutory reserve (note 17)	--	7,001	--	--	(7,001)	--
Dividend (note 18)	--	--	--	--	(67,950)	(67,950)
Balance at 31 December 2019	906,000	68,416	--	(3,550)	154,411	1,125,277

Tawfiq Moafa
Chief Financial Officer

Abdullah Al Sudairy
Chief Executive Officer

Abdullah Al Howaish
Chairman

The accompanying notes 1 to 31 form an integral part of these financial statements

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(SR '000)

	Notes	**2020**	2019
Cash flows from operating activities:			
Net income for the year before zakat and income tax		**115,394**	102,059
Non-cash adjustment to reconcile net income before zakat and income tax for the year to net cash used in operating activities			
Depreciation	*10*	**6,418**	3,501
Finance cost		**70,877**	93,767
Employees' end of service benefits	*15*	**3,017**	2,911
Impairment allowance for expected credit losses, net		**8,469**	1,752
Gain on sale of portfolio		**(1,459)**	(9,158)
Modification loss on Murabaha and Ijara receivables, net	*29*	**4,104**	--
Modification gain on borrowings, net	*29*	**(887)**	--
Gain on SAMA deposit, net	*29*	**(4,890)**	--
Other loss		**1,428**	876
		202,471	195,708
(Increase) / decrease in operating assets			
Murabaha receivables		**(15,938)**	(11,953)
Ijara receivables		**(128,588)**	(116,840)
Ijara Mawsofa Fi Athemmah receivables		**(22,686)**	20,154
Prepayments and other assets		**(2,248)**	(5,397)
Increase / (decrease) in operating liabilities			
Account payables and other accruals		**(23,737)**	25,194
		9,274	106,866
Finance cost paid	*14*	**(72,964)**	(93,219)
Employees' end of service benefits paid	*15*	**(1,186)**	(1,919)
Zakat and income tax paid	*13*	**(19,926)**	(34,782)
Net cash used in operating activities		**(84,802)**	(23,054)
Cash flows from investing activities			
Purchase of property and equipment	*10*	**(5,460)**	(10,076)
Proceeds from withdrawals of investment in joint ventures		**--**	7,608
Net cash used in investing activities		**(5,460)**	(2,468)
Cash flows from financing activities			
Repayment against borrowings	*14*	**(1,686,844)**	(1,016,300)
Proceeds from borrowings	*14*	**1,705,941**	1,103,000
SAMA deposit received		**157,071**	--
Dividend paid	*18*	**(67,950)**	(67,950)
Payment of lease liabilities		**(781)**	(1,317)
Net cash generated from financing activities		**107,437**	17,433
Net increase / (decrease) in cash and cash equivalents		**17,175**	(8,089)
Cash and cash equivalents at beginning of the year	*4*	**7,876**	15,965
Cash and cash equivalents at end of the year	*4*	**25,051**	7,876
Non-cash supplemental information:			
Net changes in fair value of cash flow hedge		**(7,705)**	(4,637)

Tawfiq Moafa	Abdullah Al Sudairy	Abdullah Al Howaish
Chief Financial Officer	Chief Executive Officer	Chairman

The accompanying notes 1 to 31 form an integral part of these financial statements

1 THE COMPANY AND THE NATURE OF OPERATIONS

Amlak International for Real Estate Finance Company ("Amlak" or the "Company") is a Saudi Joint Stock Company established and registered in the Kingdom of Saudi Arabia under commercial registration number 1010234356 in Riyadh dated 25 Jumada Awal 1428H (corresponding to 11 June 2007).

As per the revised commercial registration certificate of the Company dated 11 Ramadan 1435H (corresponding to 8 July 2014), the objectives of the Company is to provide real estate finance as per Saudi Central Bank ("SAMA") license dated 21 Safar 1435H (corresponding to 24 December 2013).

The registered office of the Company is located at Thumamah Road, Kingdom of Saudi Arabia. A Corporate Office was established in Jeddah by the Company during the year 2019. The Company has the following branches in the Kingdom of Saudi Arabia:

Branch Commercial Registration Number	Date of issuance	Location
2050057816	30/12/1428	Khobar
4030171680	24/07/1428	Jeddah

The Company has a wholly owned entity, Amlak International For Real Estate Development Company (the "Subsidiary"), which has a share capital of SR 500,000. The objective of the Subsidiary is to hold titles of real estate properties financed by the Company. The Company has not consolidated the Subsidiary as assets and liabilities of the Subsidiary are not considered material.

During the year ended 31 December 2020, the Company listed 30% of its share capital on Tadawul (Saudi Stock Exchange). Accordingly, the status of the Company has changed from Saudi Closed Joint Stock Company to Saudi Joint Stock Company.

2 BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Company are prepared:

i. in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA); and
ii. in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and By-laws of the Company.

(b) Basis of measurement

These financial statements have been prepared on a going concern basis under the historical cost convention except for the measurement of investments and derivatives, which are carried at fair value. Further, employees' end of service benefits are measured at present value of future obligations using the Projected Unit Credit Method.

(c) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (SR), as it is the functional currency of the Company. All financial information presented has been rounded-off to the SR in thousand unless otherwise stated.

2 BASIS OF PREPARATION (CONTINUED)

(d) Critical Accounting Judgements, Estimates And Assumptions

The preparation of the financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported 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 the Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalization.

Recently, number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the COVID-19 vaccine such as how long the immunity last, whether vaccine will prevent transmission or not etc.; however, the testing results showed exceptionally high success rates. Hence, the Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. The Company has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Company believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Company. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to impairment of 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:

i. Impairment of financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

2 BASIS OF PREPARATION (CONTINUED)

(d) Critical Accounting Judgements, Estimates And Assumptions (Continued)

i. Impairment of financial assets (continued)

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

- The Company's internal credit grading, which assigns probability of defaults (PDs) to corporate and high net worth customers;
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as oil prices and collateral values, and the effect on PDs, exposure at default (EAD) and loss given defaults (LGD); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

ii. Servicing rights under agency agreements

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

For assumptions involved in the calculation of servicing rights under agency arrangements refer note 20.

iii. Going concern

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

iv. Fair value measurement - refer note 3 and 25

v. Employees' end of service benefits – refer note 15

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in accounting policies

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

i. Amendments to IFRS 3: Definition of a Business
ii. Amendments to IAS 1 and IAS 8: Definition of Material
iii. Amendments to References to the Conceptual Framework in IFRS Standards.
iv. Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform – Phase I
v. COVID-19 – Related Rent Concessions (Amendments to IFRS 16) – The Company has early adopted COVID-19 – Related Rent Concessions (amendments to IFRS 16) issued on 28 May 2020. The amendments introduces an optional practical expedient for leases in which the Company is a leasee – i.e. to which the Company applies the practical expedient, the Company is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 are lease modifications. The Company has applied the amendment retrospectively with no impact on retained earnings as at 1 January 2020. The amount recognized in statement of profit or loss to reflect changes in lease payments arising from rent concession to which the Company has applied the practical expedient is SR 0.2 million (2019: nil).

b) Accounting standards issued but not yet effective

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

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

c) Cash and cash equivalents

Cash and cash equivalents consist of bank balances and cash in hand.

d) Property and equipment

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

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 income. Improvements that increase the value or materially extend the life of the related assets are capitalised. The estimated useful lives of the principal classes of assets are as follows:

	Years
Leasehold Improvements	shorter of 10 years or lease term
Furniture and fixtures	6
Office equipment	5
Information technology equipment	3 to 5 years
Software	10 years

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Murabaha receivables

Murabaha is an agreement whereby the Company sells to a customer an asset, which the Company has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. The difference between the Murabaha sale contracts receivable and the cost of the sold asset, is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the Murabaha sale contracts receivable.

f) Ijara receivables

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

g) Ijara mawsofa fi athemmah receivables

Ijara mawsofa fi athemmah is an agreement where in gross amounts due under originated Ijara mawsofa fi athemmah includes the total of future lease payments on Ijara mawsofa fi athemmah (lease contracts receivable), plus estimated residual amounts receivable. The difference between the lease contracts receivable and the cost of the leased assets is recorded as unearned Ijara mawsofa fi athemmah income. Ijara mawsofa fi athemmah income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

h) Impairment

The Company recognizes impairment allowance for ECL on the following financial instruments:

- Murabaha receivables;
- Ijara receivables; and
- Ijara Mawsofa Fi Athemmah receivables.

No impairment loss is recognized on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

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

Credit-impaired Murabaha receivables, Ijara receivables and Ijara mawsofa fi athemmah receivables

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or lease by the Company on terms that the Company would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A loan or lease that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan or lease that is overdue for 90 days or more is considered impaired.

Measurement of ECL

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition .This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial assets.

Presentation of allowance for ECL in the statement of financial position

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

Write-off

Murabaha receivables, Ijara receivables and Ijara Mawsofa Fi Athemmah receivables are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment charge for credit losses.

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as financial guarantees and real estate. Collateral, unless repossessed, is not recorded on the Company statement of financial position. However, the fair value of the real estate collateral affects the calculation of ECL. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis.

Non-financial collateral, such as real estate, is valued by third party valuers appointed by the Company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Collateral repossessed

The Company policy is to sell the repossessed asset. The repossessed asset is classified as held for sale at the fair value less cost to sell for non-financial assets at the repossession date.

i) Financial instruments

All financial assets and financial liabilities are initially recognized on the trade date i.e. the date which the Company becomes party to the contractual provisions of the instrument. Financial assets comprises of cash and cash equivalents, investments, Murabaha receivables, Ijara receivables, Ijara Mawsofa Fi Athemmah receivable, derivative and other receivables. Financial liabilities comprises of borrowings, derivatives, accounts and other payables and other liabilities.

Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Financial asset at amortised cost

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

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

Financial asset at FVOCI

Debt instrument: A debt instrument is measured at FVOCI only 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 achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit and foreign exchange gains and losses are recognised in profit or loss.

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

Financial asset at FVTPL

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset, that otherwise meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

- Financial assets are not reclassified subsequent to their initial recognition, except in the period when the Company changes its business model for managing financial assets.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (Continued)

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

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (Continued)

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

Derecognition

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

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

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

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

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

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

Modifications of financial assets and financial liabilities

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (Continued)

Offsetting of financial instruments
Financial assets and liabilities are offset and reported net in the statement of financial position when the entity has a legal currently enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Derivative financial instruments and hedge accounting
The Company uses derivative financial instruments to hedge its exposure to commission rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at 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 the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in equity.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been and are expected to be highly effective throughout the financial reporting periods for which they were / are designated.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to statement of profit or loss for the period.

j) Income / expenses recognition

Income and expenses
Income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah contracts and borrowing costs are recognized in profit or loss using the effective profit method. The 'effective profit rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortized cost of the financial instrument.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Income / expenses recognition (Continued)

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

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

Measurement of amortized cost and income

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

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

In calculating profit, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

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

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

k) Accrued expenses and other current liabilities

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

l) Provisions

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

m) Zakat and income tax

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

n) 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Employees' terminal benefits (Continued)

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

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

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

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

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements (under general and administrative expenses)
- Net special commission expense or income (under borrowing facility cost and charges)

o) Expenses

Selling and marketing expenses are those that specifically relate to salesmen and marketing expenses. All other expenses are classified as general and administrative expenses.

p) Fee and commission income and expense

Fee income and expense that are integral part to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission income is recognised as the related services are performed including servicing income. Other fee expense relate mainly to transaction and services fee, which are expensed as the services are received.

q) Finance cost

Finance costs are expensed in the period to which they relate. Finance costs consist of profit and other costs that the Company incurs in connection with the borrowing of funds and amortisation of financial charges and lease liabilities.

r) Statutory reserve

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

s) Fair value measurement

The Company measures certain financial instruments, such as, derivatives and equity instruments at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 25.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) *Fair value measurement (Continued)*

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

At each reporting date, management of the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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

t) *Foreign currencies*

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange 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 taken to the statement of profit or loss. The gains or losses on foreign currency transactions are included in the statement of profit or loss during the year.

u) *Segment reporting*

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) Other real estate asset

The Company acquires certain real estate against settlement of joint ventures and Murabaha, Ijara and Ijara Mowsofa Fi Athemmah receivable balances. Such real estates are considered as assets held for sale and are initially stated at the lower of net realisable value of due receivable balances or the joint ventures and the current fair value of related properties, less any costs to sell.

w) Value added tax ("VAT")

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

x) Government grant

The Company recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Company will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of interest is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. Government grant is recognised in statement of profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grant is intended to compensate. The grant income is only recognised when the ultimate beneficiary is the Company. Where the customer is the ultimate beneficiary, the Company only records the respective receivable and payable amounts.

y) Accounting for leases

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

Right of use assets

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

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

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

Lease liability

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

After the commencement date, Company measures the lease liability by:
1. Increasing the carrying amount to reflect interest on the lease liability.
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

y) Accounting for leases (Continued)

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

4 CASH AND CASH EQUIVALENTS

	2020	2019
Cash in hand	**30**	33
Cash at bank – current accounts	**25,021**	7,843
	25,051	7,876

Bank balances are with counterparties that have investment grade credit ratings, i.e. 'BBB' or higher by Standard and Poor's or Moody's.

5 INVESTMENTS

	2020	2019
Investment at fair value through profit or loss (note 5.1)	**9,603**	11,029
Investment at fair value through other comprehensive income	**893**	893
	10,496	11,922

5.1 Investment at FVTPL represents investment in 120 units of SAIB Saraya Tower Real Estate Development Fund (2019: 120 units), a close-ended real estate development fund managed by Alistithmar Capital.

The movement in cost and unrealized loss of the investment at FVTPL during the years ended 31 December was as follows:

	2020	2019
Cost at the beginning and end of the year	**12,000**	12,000
Unrealised loss:		
At beginning of the year	**(971)**	(409)
Change in fair value, net	**(1,426)**	(562)
At end of the year	**(2,397)**	(971)
Net carrying amount	**9,603**	11,029

6 MURABAHA RECEIVABLES, NET

	2020	2019
Gross Murabaha receivables	**141,357**	125,419
Less: Impairment allowance for credit losses	**(4,209)**	(1,969)
Murabaha receivables, net	**137,148**	123,450

(SR'000)

6 MURABAHA RECEIVABLES, NET (CONTINUED)

6.1 The ageing of past due but not impaired Murabaha receivables was as follows:

	2020	2019
Days past due:		
1 – 30	**382**	1,338
31 – 60	**--**	1,928
61 –90	**45,108**	812
Total	**45,490**	4,078

The fair value of collaterals, based on latest independent appraisals, held against impaired Murabaha receivables as at 31 December 2020 was SR 14.13 million (2019: SR 19.63 million).

6.2 The maturity profile of gross murabaha receivables as at 31 December was as follows:

	2020	2019
Not later than one year	**43,462**	28,332
Later than one year but not later than five years	**76,954**	67,760
Later than five years	**20,941**	29,327
Total	**141,357**	125,419

6.3 The table below stratifies credit exposures from Murabaha receivables into ranges of receivables to value ratio. Murabaha receivables to value ratio is calculated by dividing the gross amount of the financing with the fair value of the underlying property. The gross amount of financing used in calculating this ratio exclude any impairment allowance.

	2020	2019
Less than 50%	**45,078**	26,696
51-70%	**51,169**	93,826
71-85%	**45,110**	4,897
Total Exposure	**141,357**	125,419

7 IJARA RECEIVABLES, NET

	2020	2019
Gross Ijara receivables	**4,304,077**	4,204,624
Less: Unearned income	**(1,081,807)**	(1,102,495)
	3,222,270	3,102,129
Less: Impairment allowance for credit losses	**(87,229)**	(85,400)
Ijara receivables, net	**3,135,041**	3,016,729

During the year, the Company has written-off receivables of SR 1.3 million (31 December 2019: SR Nil).

7.1 The ageing of past due but not impaired Ijara receivables are as follows:

Days past due:	**2020**	2019
1 – 30	**153,039**	151,548
31 – 60	**51,801**	121,152
61 –90	**29,329**	60,094
Total	**234,169**	332,794

The fair value of collaterals, based on latest independent appraisals, held against impaired Ijara receivables as at 31 December 2020 was SR 313.75 million (2019: SR 474.13 million).

(SR'000)

7 IJARA RECEIVABLES, NET (CONTINUED)

7.2 The maturity profile of Ijara receivables as at 31 December is as follows:

	2020			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara receivables	**1,025,597**	**2,106,527**	**1,171,953**	**4,304,077**
Less: Unearned income	**(268,588)**	**(543,447)**	**(269,772)**	**(1,081,807)**
	757,009	**1,563,080**	**902,181**	**3,222,270**
Less: Impairment allowance for credit losses				**(87,229)**
Ijara receivables, net				**3,135,041**

	2019			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara receivables	901,098	2,140,538	1,162,988	4,204,624
Less: Unearned income	(245,512)	(568,681)	(288,302)	(1,102,495)
	655,586	1,571,857	874,686	3,102,129
Less: Impairment allowance for credit losses				(85,400)
Ijara receivables, net				3,016,729

7.3 The table below stratifies credit exposures from Ijara receivables into ranges of receivables to value ratio. Ijara receivables to value ratio is calculated by dividing the gross amount of the financing with the fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

	2020	2019
Less than 50%	**773,553**	829,140
51-70%	**883,441**	1,055,360
71-85%	**1,025,017**	793,891
86-100%	**451,158**	391,495
Above 100%	**89,101**	32,243
Total Exposure	**3,222,270**	3,102,129

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

	2020	2019
Gross Ijara Mawsofa Fi Athemmah receivables	**130,411**	128,100
Less: Unearned income	**(47,988)**	(68,363)
	82,423	59,737
Less: Impairment allowance for credit losses	**(2,345)**	(2,288)
Ijara Mawsofa Fi Athemmah receivables, net	**80,078**	57,449

(SR'000)

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET (CONTINUED)

8.1 The ageing of past due but not impaired Ijara Mawsofa Fi Athemmah receivables as at 31 December was as follows:

Days past due:	**2020**	2019
1 – 30	**--**	731
31 – 60	**--**	1,411
Total	**--**	2,142

The fair value of collaterals, based on latest independent appraisals, held against impaired Ijara Mawsofa Fi Athemmah as at 31 December 2020 was SR 2.16 million (2019: SR Nil).

8.2 The maturity profile of Ijara Mawsofa Fi Athemmah receivables as at 31 December 2020 was as follows:

	2020			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara Mawsofa Fi Athemmah receivables	**8,901**	**36,078**	**85,432**	**130,411**
Less: Unearned income	**(4,265)**	**(17,028)**	**(26,695)**	**(47,988)**
	4,636	**19,050**	**58,737**	**82,423**
Less: Impairment allowance for credit losses				**(2,345)**
Ijara Mawsofa Fi Athemmah receivables, net				**80,078**

	2019			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara Mawsofa Fi Athemmah receivables	10,387	35,902	81,811	128,100
Less: Unearned income	(6,763)	(23,310)	(38,290)	(68,363)
	3,624	12,592	43,521	59,737
Less: Impairment allowance for credit losses				(2,288)
Ijara Mawsofa Fi Athemmah receivables, net				57,449

8.3 The table below stratifies credit exposures from Ijara Mawsofa Fi Athemmah receivables into ranges of receivables to value ratio. Ijara Mawsofa Fi Athemmah receivables to value ratio is calculated by dividing the gross amount of the financing with the fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

	2020	2019
Less than 50%	**23,945**	23,199
51-70%	**27,006**	13,713
71-85%	**25,716**	14,245
86-100%	**5,756**	5,770
Above 100%	**--**	2,810
Total Exposure	**82,423**	59,737

(SR'000)

9 PREPAYMENTS AND OTHER ASSETS

	2020	2019
Other real estate assets	**73,878**	78,911
Value added tax receivable (note 9.1)	**18,344**	23,307
Receivable from joint ventures	**1,774**	5,575
Others	**37,358**	19,854
	131,354	127,647

9.1 This includes receivable from Ministry of Housing ("MOH") against VAT receivables.

(SR'000)

10 PROPERTY, EQUIPEMENT AND RIGHT OF USE ASSETS, NET

2020	**Land**	**Leasehold improvements**	**Office equipment**	**Furniture and fixtures**	**Information technology equipment**	**Right of use asset***	**Work in Progress****	**Total**
Cost:								
Balance at beginning of the year	**13,650**	**3,324**	**837**	**2,012**	**28,982**	**25,650**	**9,027**	**83,482**
Additions	**--**	**94**	**226**	**1,184**	**3,913**	**2,088**	**43**	**7,548**
Transfers	**--**	**4,725**	**--**	**--**	**1,783**	**--**	**(6,508)**	**--**
Write off	**--**	**(2,407)**	**--**	**(1,727)**	**--**	**--**	**--**	**(4,134)**
Balance at end of the year	**13,650**	**5,736**	**1,063**	**1,469**	**34,678**	**27,738**	**2,562**	**86,896**
Accumulated depreciation:								
Balance at beginning of the year	**--**	**2,493**	**639**	**1,880**	**17,754**	**655**	**--**	**23,421**
Charge for the year	**--**	**416**	**93**	**79**	**2,831**	**2,999**	**--**	**6,418**
Reversal due to write off	**--**	**(2,407)**	**--**	**(1,727)**	**--**	**--**	**--**	**(4,134)**
Balance at end of the year	**--**	**502**	**732**	**232**	**20,585**	**3,654**	**--**	**25,705**
Net book value: At 31 December 2020	**13,650**	**5,234**	**331**	**1,237**	**14,093**	**24,084**	**2,562**	**61,191**

* Right of use assets pertains to lease of premises of the Company's head office and its branches.

**Work in progress as at 31 December 2020 represents mainly the amount paid for information technology system implementation / upgrade.

(SR'000)

10 PROPERTY, EQUIPEMENT AND RIGHT OF USE ASSETS, NET (CONTINUED)

2019	Land	Leasehold improvements	Office equipment	Furniture and fixtures	Information technology equipment	Right of use asset*	Work in Progress**	Total
Cost:								
Balance at beginning of the year	13,650	3,382	743	1,868	18,800	--	10,018	48,461
IFRS 16 adjustment as at 1 January 2019	--	--	--	--	--	3,262	--	3,262
Additions	--	7	94	144	1,787	22,388	8,044	32,464
Transfers	--	--	--	--	8,395	--	(8,395)	--
Write off	--	(65)	--	--	--	--	(640)	(705)
Balance at end of the year	13,650	3,324	837	2,012	28,982	25,650	9,027	83,482
Accumulated depreciation:								
Balance at beginning of the year	--	2,235	562	1,859	15,969	--	--	20,625
Charge for the year	--	323	77	21	1,785	655	--	2,861
Reversal due to write off	--	(65)	--	--	--	--	--	(65)
Balance at end of the year	--	2,493	639	1,880	17,754	655	--	23,421
Net book value: At 31 December 2019	13,650	831	198	132	11,228	24,995	9,027	60,061

* Right of use assets pertains to lease of premises of the Company's head office and its branches.

**Work in progress as at 31 December 2019 represents mainly the amount paid for information technology system implementation / upgrade and the new head office.

11 ACCOUNTS PAYABLE AND OTHER ACCRUALS

	2020	2019
Financing to customers (note 11.1)	**41,778**	37,697
Lease liabilities	**24,279**	21,984
Salaries and employee related expenses	**13,220**	15,823
Accrued expenses	**4,970**	9,701
Amount received from customers (note 11.2)	**4,293**	7,351
Payable to the Ministry of Housing	**754**	33,357
Others (notes 11.3)	**37,093**	21,916
	126,387	147,829

11.1 Financing to customers arise when the financing arrangement has been agreed with the customer, but the amount is not disbursed due to administrative time required for the transfer of legal title of property.

11.2 This majorly represents down payment received from the customers, which is not paid to the seller of the property.

11.3 This includes amount pertaining to late payment charges accrued from customers equal to SR 26.02 million (2019: SR 8.51 million). In accordance with the Shari'a advisor, late payment charges collected are recognized as other liabilities in the statement of financial position and are paid as charity.

12 DERIVATIVES

As at 31 December 2020, the Company held profit rate swaps ("PRS") of a notional value of SR 460 million (2019: SR 300 million) in order to hedge its exposure to commission rate risks related to long term financing and leasing. The tables below summarize the positive and negative fair values of derivative financial instruments, together with the notional amounts, analysed by the term to maturity.

			Notional amount			
SR in 000'	**Positive fair value of PRSs**	**Negative fair value of PRSs**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 Years**
2020	**--**	**(11,255)**	**--**	**--**	**460,000**	**--**
2019	71	(3,621)	100,000	--	200,000	--

13 ZAKAT AND INCOME TAX

a) The movement in zakat and income tax is as follow:

	31 December 2020		
	Zakat	**Income tax**	**Total**
Balance at the beginning of the year	**34,180**	**200**	**34,380**
Charge / reversal for the year	**16,685**	**(191)**	**16,494**
Unwinding of discount	**899**	**--**	**899**
Payments made during the year	**(19,917)**	**(9)**	**(19,926)**
Balance as at end of the year	**31,847**	**--**	**31,847**

(SR'000)

13 ZAKAT AND INCOME TAX (CONTINUED)

	31 December 2019		
	Zakat	Income tax	Total
Balance at the beginning of the year	36,147	643	36,790
Charge for the year:			
- current year	14,857	68	14,925
- prior years	16,367	241	16,608
	31,224	309	31,533
Unwinding of discount	839	--	839
Payments made during the year	(34,030)	(752)	(34,782)
Balance as at end of the year	34,180	200	34,380

b) Zakat and Income tax expense

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

	For the year ended 31 December	
	2020	2019
Charge for the year:		
- Current tax and zakat	**16,494**	14,925
- Prior years	**--**	16,608
- Deferred tax for the year	**--**	516
Charge for the year	**16,494**	32,049

c) Income tax reconciliation

	For the year ended 31 December	
	2020	2019
Accounting profit for the year	**115,394**	102,059
Permanent differences	**--**	3,359
Adjusted accounting profit for the year	**115,394**	105,418
Non-GCC shareholder share (nil / 0.3244%)	**--**	341
Tax charge on Income @ 20%	**--**	68

d) Zakat and income tax status

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

In 2019, the Company has signed a settlement agreement with GAZT in respect of zakat assessment years from 2013 to 2017. Pursuant to this settlement agreement, the Company is liable to pay an amount of SR 33.6 million in six instalments over five years as the final settlement for its zakat assessment. The Company has paid to GAZT all due instalments amounted to SR 17.51 million till 31 December 2020 (31 December 2019: SR 12.24 million).

(SR'000)

14 BORROWINGS

These represent amounts borrowed from local commercial banks and Saudi Real Estate Re-finance Company ("SRC") under Islamic borrowings approved by Sharia Committee. These facilities carry borrowing costs at profit rates ranging from 3 months to 3 years Saudi Inter Bank Offer rates ("SIBOR") plus spread with maturity ranging from 1 month to 5 years and are secured by the assignment of proceeds from receivables. Under the terms of the financing arrangement, the Company adhered to financial covenants. A breakdown of borrowings by maturity was as follows:

Borrowings:	**2020**	2019
Current portion	**766,634**	714,910
Non-current portion	**1,328,036**	1,365,522
	2,094,670	2,080,432

14.1 The movement in borrowings for the years ended 31 December was as follows:

	2020	2019
Balance at beginning of the year	**2,080,432**	1,994,132
Borrowings obtained during the year	**1,705,941**	1,103,000
Principal repayments during the year	**(1,686,844)**	(1,016,300)
Profit accrued during the year	**68,992**	92,819
Profit repayments during the year	**(72,964)**	(93,219)
Modification gain on borrowing, net	**(887)**	--
Balance at end of the year	**2,094,670**	2,080,432

15 EMPLOYEES' END OF SERVICE BENEFITS

The following tables summarise the components of employees' end of service benefits recognised in the statements of financial position, profit or loss and other comprehensive income.

a) Amount recognised in the statement of financial position as at 31 December:

	2020	2019
Present value of defined benefit obligation	**15,592**	13,666

b) Benefit expense (recognised in the statement of profit or loss):

	For the year ended 31 December	
	2020	2019
Current service cost	**2,071**	2,253
Interest cost	**451**	658
Past service cost	**495**	--
	3,017	2,911

(SR'000)

15 EMPLOYEES' END OF SERVICE BENEFITS (CONTINUED)

c) Movement in the present value of defined benefit obligation:

	For the year ended 31 December	
	2020	2019
Present value of defined benefit obligation at beginning of the year	**13,666**	13,618
Charge recognised in the statement of profit or loss:		
- Current service cost	**2,071**	2,253
- Finance cost	**451**	658
- Past service cost	**495**	--
	3,017	2,911
Actuarial loss / (gain) on defined benefit plan recognized in the statement of other comprehensive income	**95**	(944)
Benefits paid	**(1,186)**	(1,919)
Present value of defined benefit obligation at end of the year	**15,592**	13,666

d) Principal actuarial assumptions:

	2020	2019
Discount rate	**1.6%**	3.3%
Salary increase rate	**1.6%**	3.3%

e) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2020		31 December 2019	
	Increase	**Decrease**	Increase	Decrease
Discount rate (1% movement)	**(1,167)**	**1,335**	(1,047)	1,200
Future salary growth (1% movement)	**1,350**	**(1,204)**	1,216	(1,082)

16 SHARE CAPITAL

As at 31 December 2020, the Company's authorised, issued and paid-up share capital was SR 906 million (31 December 2019: SR 906 million) divided into 90.6 million shares (31 December 2019: 90.6 million shares) with a nominal value of SR 10 each.

17 STATUTORY RESERVE

In accordance with the Company's By-laws and the Regulation for Companies in Saudi Arabia, 10% of the annual net income is transferred to statutory reserve until such reserve equals 30% of the Company's share capital. This reserve is not available for distribution to the shareholders. During the year, the Company has transferred SR 9.9 million (31 December 2019: SR 7.0 million) to statutory reserve.

18 DIVIDENDS

During the current year, the shareholders in the annual general meeting held on 30 September 2020 approved and declared a dividend of SR 67.95 million for the year 2019 (31 December 2019: SR 67.95 million for the year 2018), which was accordingly paid by the Company.

19 EARNINGS PER SHARE

The basic and diluted earnings per share have been computed by dividing net income for the year by the weighted number of shares outstanding during the year.

	2020	2019
Profit for the year *(SR '000)*	**98,900**	70,010
Weighted average number of ordinary shares *(in thousands)*	**90,600**	90,600
Basic and diluted earnings per share *(SR)*	**1.09**	0.77

20 SERVICING RIGHTS UNDER AGENCY ARRANGEMENTS

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

During the year, the Company sold its financing portfolio amounted to SR 459.67 million (31 December 2019: SR 235.68 million) and entered into an agency contract for servicing these receivables. The outstanding balance of portfolio, which the Company is servicing as at 31 December 2020 amounted to SR 722.61 million (2019: SR 307.38 million)

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

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

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

Early settlement rate:
The Company calculates early settlement rate as a percentage of total portfolio sold to a third party with the portfolio which has early settled till the end of the year.

21 GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2020	2019
Salaries and employee related cost	**52,194**	53,937
Board fee and expenses	**3,655**	2,530
Information technology expenses	**2,469**	4,448
Professional fee	**1,880**	2,863
Communication	**949**	750
Rent and other expenses	**648**	2,044
Maintenance expenses	**630**	937
Travelling expenses	**465**	1,139
Others	**7,931**	9,756
	70,821	78,404

(SR'000)

22 SELLING AND MARKETING EXPENSES

	For the year ended 31 December	
	2020	2019
Salaries and outsourcing cost	**6,576**	5,825
Insurance	**3,123**	3,975
Marketing expenses	**1,213**	3,343
	10,912	13,143

23 RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company include the shareholders and their affiliated entities, the Subsidiary and key management personnel. In the ordinary course of its activities, the Company transacts business with its related parties on mutually agreed terms. Key management personnel are the Board and its committees members, the Chief Executive and his direct reports.

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, significant transactions and balances arising from transactions with related parties are as follows:

Nature of transactions	Name of related party and relationship	Amounts of transactions for the year ended 31 December	
		2020	2019
Borrowing cost	The Saudi Investment Bank (shareholder)	**16,457**	27,146
Rent expense	Saudi Orix Leasing (affiliate)	**132**	1,592
Security and other expenses	Saudi Orix Leasing (affiliate)	**10**	224
PRS profit received	The Saudi Investment Bank (shareholder)	**--**	(213)
Salaries and benefits	Key management personnel	**11,183**	10,773
Board meeting fees and other expenses	Key management personnel	**3,655**	2,530

(SR'000)

23 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Nature of balances and names of related parties	Relationship	Balances 2020	Balances 2019
Bank balances:			
The Saudi Investment Bank	Shareholder	**6,627**	7,340
Due from related parties:			
Tharaa Real Estate Investment	Joint venture	**--**	878
Dar Wa Emar – Rahba	Joint venture	**--**	2,923
Alistithmar Capital	Affiliate	**1,774**	1,774
Borrowings:			
The Saudi Investment Bank	Shareholder	**455,667**	615,821
Notional amount of PRS:			
The Saudi Investment Bank	Shareholder	**--**	50,000
Financing and advances:			
Key management personnel	Key management	**3,219**	3,731
Investment at FVTPL:			
SAIB Saraya Tower Real Estate Development Fund	Affiliate	**9,603**	11,029
Other receivables:			
Amlak International For Real Estate Development	Subsidiary	**305**	305
Receivable against initial public offering	Shareholders	**--**	4,649
Board meeting and other expenses payable			
Board members	Key management personnel	**3,889**	3,739

24 FINANCIAL RISK MANAGEMENT

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

The Risk Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The Risk Management Committee is responsible for managing risk decisions and monitoring on risk levels and reports on a quarterly basis to the Board Risk Management Committee.

1) Credit risk

The Company manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables.

The Company assesses the probability of default of counterparties using internal rating mechanism. This is done for corporate and high net worth individuals only.

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

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

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

The Company seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific business.

Management monitors the market value of collateral obtained during its review of the adequacy of the impairment allowance for credit losses. The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

Below are the Company's internal credit rating for corporate and high net worth individuals portfolio:

Internal rating grades	**Internal rating description**	**PD range**
Performing:		
1	Investment grade	0.00%-0.01%
2+ to 2-	Investment grade	0.01%-0.04%
3+ to 3-	Investment grade	0.04%-0.10%
4+ to 4-	Investment grade	0.10%-0.48%
5+ to 5-	Non-investment grade	0.48%-2.29%
6+ to 6-	Non-investment grade	2.29%-7.05%
7+ to 7-	Non-investment grade	7.05%-99.99%
Non-performing:		
8	Sub-standard	100%
9	Doubtful	100%
10	Loss	100%

The retail portfolio is categorized as unrated.

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the reporting date was on account of:

	2020	2019
Cash and cash equivalents	**25,021**	7,843
Murabaha receivables, net	**137,148**	123,450
Ijara receivables, net	**3,135,041**	3,016,729
Ijara mawsofa fi athemmah receivables, net	**80,078**	57,449
Other receivables	**49,335**	37,499
	3,426,623	3,242,970

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

a) Credit quality analysis

The following table sets out information about the credit quality of financing and leasing financial assets as at 31 December. The amounts in the table represent gross carrying amounts.

2020:

	Stage 1 - 12 month ECL		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**Impairment allowance for credit losses**	**Net exposure**
Grades 1 to 4-	**546,401**	**496**	**545,905**
Grades 5+ to 7-	**582,220**	**2,011**	**580,209**
Unrated	**727,006**	**3,338**	**723,668**
Total	**1,855,627**	**5,845**	**1,849,782**

	Stage 2 - Lifetime ECL (not credit impaired)		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**Impairment allowance for credit losses**	**Net exposure**
Grades 1 to 4-	**176,723**	**369**	**176,354**
Grades 5+ to 7-	**805,979**	**8,900**	**797,079**
Unrated	**193,143**	**964**	**192,179**
Total	**1,175,845**	**10,233**	**1,165,612**

	Stage 3 - Lifetime ECL (credit impaired)		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**Impairment allowance for credit losses**	**Net exposure**
Grades 5+ to 7-	**164,003**	**29,765**	**134,238**
Grades 8 to 10	**206,044**	**41,253**	**164,791**
Unrated	**44,531**	**6,687**	**37,844**
Total	**414,578**	**77,705**	**336,873**

2019:

	Stage 1 - 12 month ECL		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 1 to 4-	443,539	148	443,391
Grades 5+ to 7-	761,154	966	760,188
Unrated	797,171	2,957	794,214
Total	2,001,864	4,071	1,997,793

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

a) Credit quality analysis (Continued)

Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Stage 2 - Lifetime ECL (not credit impaired)		
	Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 1 to 4-	64,933	78	64,855
Grades 5+ to 7-	550,101	2,451	547,650
Unrated	180,714	753	179,961
Total	795,748	3,282	792,466

Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Stage 3 - Lifetime ECL (credit impaired)		
	Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 1 to 4-	22,057	2,899	19,158
Grades 5+ to 7-	241,050	29,434	211,616
Grades 8 to 10	189,920	39,814	150,106
Unrated	36,646	10,157	26,489
Total	489,673	82,304	407,369

b. Amounts arising from ECL – Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the 12 month probability of default (PD) as at the reporting date; with
- the 12 month probability of default (PD) at the time of initial recognition of the exposure

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

Stage 2: When a receivable has shown a significant increase in credit risk since origination, the Company records an allowance for the Lifetime ECL. Stage 2 receivables also include facilities, where the credit risk has improved and the receivables has been reclassified from Stage 3.

Stage 3: Receivables considered credit-impaired. The Company records an allowance for the Lifetime ECL.

POCI: Purchased or originated credit impaired (POCI) assets are receivables that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

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

i) 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.

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

Corporate exposures	All exposures
• Information obtained during annual review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes. • Actual and expected significant changes in business activities of the borrower.	• Payment record – this includes overdue status. • Requests for and granting of forbearance. • Existing and forecast changes in business, financial and economic conditions.

ii) 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 separately for the corporate and retail portfolios.

The Company analyses the relationships between its historical default rates and macro-economic factors. For both the corporate and retail portfolios, the key macro-economic indicator is oil price and GDP. The Company has formulated a view of the future direction of relevant economic variables for three different scenarios.

iii) Determining whether credit risk has increased significantly

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

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modelling, the remaining lifetime PD is determined to have increased significantly.

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.

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

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

iii) Determining whether credit risk has increased significantly (Continued)

For the corporate and high net worth individual portfolio, apart from the increase in PD (2 rating downgrade or 6 sub-notch down) criteria and customers whose receivables are restructured due to deterioration in credit worthiness, 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.

For retails loans, apart from the customers whose receivables are restructured due to deterioration in credit worthiness, 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.

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; and
- the criteria do not align with the point in time when an asset becomes 30 days past due

Consideration due to COVID-19
In response to the impacts of COVID-19, deferred payments program has been offered to the customers either voluntarily by the Company or on account of SAMA initiatives (refer note 29 for further details). The exercise of the deferment option by a customer, in its own, is not considered by the Company as triggering SICR and as a consequence impact on ECL for those customers were determined based on their existing staging. However, as part of the Company's credit evaluation process especially given the current economic situation due to after effects of lock down, the Company obtained further information from the customer to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

No change has been made in the backstop criteria for all types of exposures.

iv) Modified financial assets

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

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
- the risk of default at the reporting date (based on modified contractual terms); and
- the risk of default occurring at initial recognition (based on original, unmodified contractual terms)

The Company renegotiates receivables from customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Company's forbearance policy, receivable 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.

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

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

iv) Modified financial assets (Continued)

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of receivable covenants. Both retail and corporate receivables are subject to the forbearance policy. The Company Risk Management Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect profit and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

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

v) Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from economic experts and consideration of a variety of forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by International Monetary Fund.

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

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at the year-end included the following ranges of key indicator:

Economic Indicators	**31 December 2020**	31 December 2019
Oil prices	**Base case 70%** **Downside 30%**	Upside 15% Base case 70% Downside 15%
Gross domestic product	**Base case 70%** **Downside 30%**	Upside 15% Base case 70% Downside 15%

Consideration due to COVID-19

1. Types of forward looking

There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year.

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

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

v) Incorporation of forward looking information (Continued)

2. Scenario assumptions
As at 31 December 2020, the scenario assumptions are updated to reflect the current situation of COVID-19. This included an assessment of the support of the Government's actions, the response of businesses and customers (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn.

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

Probability weighting of each scenario is determined by the management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current period is the continuing impact of COVID-19. In addition to the base case forecast which reflects the negative economic impact as compared to last year as a consequence of COVID-19, greater weighting has been applied to the downside scenario given the Company's assessment of downside risks and no weighting has been applied to upside scenario.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 7 years. To account for the impact of COVID-19, the Company has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic indicators	**Forecast calendar years used in 2020 ECL model**			Forecast calendar years used in 2019 ECL model			
	2021	**2022**	**2023**	2020	2021	2022	2023
GDP	**3.10%**	**3.44%**	**2.55%**	2.30%	2.11%	2.20%	2.28%
Oil price	**$50.23**	**$49.57**	**$49.08**	$69	$69.10	$69.20	$69.30

vi) Definition of 'Default'
The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full;
- the borrower is classified in default category as per internal credit grade (applicable for corporate and high net worth individuals); or
- the borrower is past due more than 90 days on any material credit obligation to the Company.

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

vii) Measurement of ECL
The key inputs into the measurement of ECL are the following risk estimates:
i. probability of default (PD);
ii. loss given default (LGD); and
iii exposure at default (EAD).

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

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

vii) Measurement of ECL (Continued)

PD estimates are estimates at a certain date, which are calculated, based on statistical rating mechanism, and assessed using rating grades tailored for the corporate and high net worth individuals portfolios. These rating mechanisms are based on 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. Further the PD term structure is estimated considering the contractual maturities of exposures

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD based on the history of recovery rates of claims against defaulted counterparties. LGD estimation considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset. Due to sparse historical defaults, the quantitative LGD estimates has been adjusted for qualitative overlays based on the Company's empirical loss experience and is subject to back testing.

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

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Company has a right to require repayment.

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

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

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

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

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

vii) Measurement of ECL (Continued)

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

Assumptions sensitized	Impact on Profit or (loss) (2020)
Macro-economic factors:	
Increase in $10 oil price per barrel	577
Increase in $20 oil price per barrel	1,021
Decrease in $10 oil price per barrel	(845)
Decrease in $20 oil price per barrel	(4,348)
Increase in GDP by 5%	42
Decrease in GDP by 5%	(42)
Scenario weightages:	
Base scenario increase by 5% with corresponding change in downside	(39)
Base scenario decrease by 5% with corresponding change in downside	231
Base scenario increase by 5% with corresponding change in upside	210

Consideration due to COVID-19:
The PD, EAD and LGD models are subject to the Company's model risk policy that stipulates periodic model monitoring, periodic revalidation and defines approval procedures and authorities according to model materiality.

Gross receivables and loss allowance
The following table shows reconciliations from the opening to the closing balance of the gross receivables and loss allowance based on customer categories for the year ended 31 December 2020.

GROSS EXPOSURE - CORPORATE	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2020	**590,996**	**366,774**	**345,657**	**1,303,427**
Transfer from 12 Month ECL	**(122,437)**	**119,293**	**3,144**	**--**
Transfer from Lifetime ECL (not credit impaired)	**104,439**	**(104,439)**	**-**	**--**
Transfer from Lifetime ECL (credit impaired)	**-**	**22,057**	**(22,057)**	**--**
Net repayment received during the year	**(117,888)**	**(86,444)**	**(47,258)**	**(251,590)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**274,413**	**--**	**--**	**274,413**
Write-offs	**--**	**--**	**(1,302)**	**1,302**
Balance at 31 December, 2020	**729,523**	**317,241**	**278,184**	**1,324,948**

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

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

vii) Measurement of ECL (Continued)

LOSS ALLOWANCE - CORPORATE	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2020	**854**	**2,099**	**57,085**	**60,038**
Transfer from 12 Month ECL	**(176)**	**174**	**2**	--
Transfer from Lifetime ECL (not credit impaired)	**347**	**(347)**	**--**	--
Transfer from Lifetime ECL (credit impaired)	**-**	**2,899**	**(2,899)**	**--**
Net re-measurement of loss allowance	**121**	**(179)**	**8,763**	**8,705**
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	**(127)**	**(267)**	**(6,727)**	**(7,121)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**1,156**	**--**	**--**	**1,156**
Write-offs	**--**	**--**	**(1,302)**	**(1,302)**
Balance at 31 December, 2020	**2,175**	**4,379**	**54,922**	**61,476**

GROSS EXPOSURE - HIGH NET WORTH INDIVIDUALS	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2020	**613,698**	**248,260**	**107,373**	**969,331**
Transfer from 12 Month ECL	**(391,489)**	**370,043**	**21,446**	--
Transfer from Lifetime ECL (not credit impaired)	**--**	**(11,770)**	**11,770**	--
Transfer from Lifetime ECL (credit impaired)	**--**	**--**	**--**	--
Net repayment received during the year	**(55,040)**	**(30,680)**	**(32,668)**	**(118,388)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**231,929**	**73,551**	**--**	**305,480**
Balance at 31 December, 2020	**399,098**	**665,461**	**91,864**	**1,156,423**

LOSS ALLOWANCE - HIGH NET WORTH INDIVIDUALS	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2020	**257**	**431**	**15,061**	**15,749**
Transfer from 12 Month ECL	**(193)**	**185**	**8**	--
Transfer from Lifetime ECL (not credit impaired)	**--**	**(15)**	**15**	--
Transfer from Lifetime ECL (credit impaired)	**--**	**1,441**	**(1,441)**	--
Net re-measurement of loss allowance	**83**	**2,674**	**2,506**	**5,263**
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	**(8)**	**--**	**(53)**	**(61)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**192**	**175**	**--**	**367**
Balance at 31 December, 2020	**331**	**4,891**	**16,096**	**21,318**

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

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

vii) Measurement of ECL (Continued)

GROSS EXPOSURE – RETAIL	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2020	**797,170**	**180,714**	**36,643**	**1,014,527**
Transfer from 12 Month ECL	**(88,467)**	**87,658**	**809**	--
Transfer from Lifetime ECL (not credit impaired)	**24,088**	**(48,077)**	**23,989**	--
Transfer from Lifetime ECL (credit impaired)	**1,394**	**5,768**	**(7,162)**	--
Net repayment received during the year	**(351,202)**	**(40,338)**	**(9,749)**	**(401,289)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**344,023**	**7,418**	**--**	**351,441**
Balance at 31 December, 2020	**727,006**	**193,143**	**44,530**	**964,679**

LOSS ALLOWANCE - RETAIL	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2020	**2,960**	**752**	**10,158**	**13,870**
Transfer from 12 Month ECL	**(79)**	**78**	**1**	--
Transfer from Lifetime ECL (not credit impaired)	**103**	**(182)**	**79**	--
Transfer from Lifetime ECL (credit impaired)	**220**	**583**	**(803)**	--
Net re-measurement of loss allowance	**(184)**	**(176)**	**2,337**	**1,977**
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	**(386)**	**(144)**	**(5,085)**	**(5,615)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**705**	**52**	**--**	**757**
Balance at 31 December, 2020	**3,339**	**963**	**6,687**	**10,989**

The following table shows reconciliations from the opening to the closing balance of the gross receivables and loss allowance based on customer categories for the year ended 31 December 2019.

GROSS EXPOSURE – CORPORATE	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2019	795,159	324,685	308,973	1,428,817
Transfer from 12 Month ECL	(151,455)	127,562	23,893	--
Transfer from Lifetime ECL (not credit impaired)	8,284	(82,620)	74,336	--
Transfer from Lifetime ECL (credit impaired)	--	14,149	(14,149)	--
Net repayment received during the year	(298,347)	(56,129)	(52,724)	(407,200)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	237,355	39,127	5,328	281,810
Balance at 31 December, 2019	590,996	366,774	345,657	1,303,427

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

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

vii) Measurement of ECL (Continued)

LOSS ALLOWANCE - CORPORATE	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2019	6,735	13,003	57,151	76,889
Transfer from 12 Month ECL	(1,298)	899	399	--
Transfer from Lifetime ECL (not credit impaired)	197	(2,103)	1,906	--
Transfer from Lifetime ECL (credit impaired)	--	1,922	(1,922)	--
Net re-measurement of loss allowance	(3,711)	(10,578)	4,307	(9,982)
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(1,595)	(1,110)	(5,288)	(7,993)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	526	66	532	1,124
Balance at 31 December, 2019	854	2,099	57,085	60,038

GROSS EXPOSURE - HIGH NET WORTH INDIVIDUALS	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2019	411,314	310,370	36,228	757,912
Transfer from 12 Month ECL	(99,467)	84,114	15,353	--
Transfer from Lifetime ECL (not credit impaired)	2,841	(71,540)	68,699	--
Transfer from Lifetime ECL (credit impaired)	--	18,841	(18,841)	--
Net repayment received during the year	(183,082)	(147,025)	(1,803)	(331,910)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	482,092	53,500	7,737	543,329
Balance at 31 December, 2019	613,698	248,260	107,373	969,331

LOSS ALLOWANCE - HIGH NET WORTH INDIVIDUALS	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2019	312	1,585	2,597	4,494
Transfer from 12 Month ECL	(97)	71	26	--
Transfer from Lifetime ECL (not credit impaired)	2	(307)	305	--
Transfer from Lifetime ECL (credit impaired)	--	497	(497)	--
Net re-measurement of loss allowance	(117)	(587)	11,723	11,019
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(40)	(1,038)	(201)	(1,279)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	197	210	1,108	1,515
Balance at 31 December, 2019	257	431	15,061	15,749

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

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

vii) Measurement of ECL (Continued)

GROSS EXPOSURE - RETAIL	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2019	785,622	174,923	31,372	991,917
Transfer from 12 Month ECL	(88,940)	88,940	--	--
Transfer from Lifetime ECL (not credit impaired)	29,628	(43,447)	13,819	--
Transfer from Lifetime ECL (credit impaired)	882	6,585	(7,467)	--
Net repayment received during the year	(368,312)	(66,988)	(1,891)	(437,191)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	438,290	20,701	810	459,801
Balance at 31 December, 2019	797,170	180,714	36,643	1,014,527

LOSS ALLOWANCE - RETAIL	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2019	1,631	1,223	3,669	6,523
Transfer from 12 Month ECL	(176)	176	--	--
Transfer from Lifetime ECL (not credit impaired)	195	(275)	80	--
Transfer from Lifetime ECL (credit impaired)	11	108	(119)	--
Net re-measurement of loss allowance	1,418	(251)	6,340	7,507
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(526)	(374)	(10)	(910)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	407	145	198	750
Balance at 31 December, 2019	2,960	752	10,158	13,870

c. Collateral

The Company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables. These collaterals mostly include real estate property. Collaterals are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

2) Market rate risk

a) Profit rate risk

Profit rate risk is the uncertainty of future earnings resulting from fluctuations in profit rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to profit rate adjustment within a specified period. The most important source of such rate risk is the Company's borrowings and financing activities, where fluctuations in profit rates, if any, are reflected in the results of operations.

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

2) Market rate risk (Continued)

a) Profit rate risk (Continued)

The following table depicts the sensitivity to a reasonable possible change in profit rates, with other variables held constant, on the Company's statement of profit or loss. The sensitivity of the income is the effect of the assumed changes in profit rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at year-end. All the exposures are monitored and analysed in major currency concentrations and relevant sensitivities are disclosed in SR thousands.

	2020		2019	
	Change in basis points	**Impact on net income**	Change in basis points	Impact on net income
Saudi Riyals	**+100**	**(6,002)**	+100	(8,274)
Saudi Riyals	**-100**	**6,002**	-100	8,274

The Company manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The table below summarises the Company's exposure to profit rate risks. Included are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Company is exposed to special profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Company manages this risk through diversification of funding resources and use of derivative financial instruments.

The table below summarizes the Company's exposure to profit rate risks:

	Profit bearing					
31 December 2020	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
Cash and cash equivalents	--	--	--	--	**25,051**	**25,051**
Investments	--	--	--	--	**10,496**	**10,496**
Murabaha receivables, net	**15,243**	**27,042**	**74,569**	**20,294**	--	**137,148**
Ijara receivables, net	**270,746**	**637,333**	**1,439,790**	**787,172**	--	**3,135,041**
Ijara mawsofa fi athemmah receivables, net	**1,015**	**12,305**	**14,208**	**52,550**	--	**80,078**
Other receivables	--	--	--	--	**49,335**	**49,335**
Total assets	**287,004**	**676,680**	**1,528,567**	**860,016**	**84,882**	**3,437,149**
Liabilities						
Other liabilities	**712**	**2,166**	**10,777**	**10,623**	**97,140**	**121,418**
Negative fair value of derivatives	--	--	--	--	**11,255**	**11,255**
Borrowings	**1,710,292**	**366,878**	**17,500**	--	--	**2,094,670**
SAMA deposit, net	--	--	--	--	**152,181**	**152,181**
Total liabilities	**1,711,004**	**369,044**	**28,277**	**10,623**	**260,576**	**2,379,524**
Gap	**(1,424,000)**	**307,636**	**1,500,290**	**849,393**	**(175,694)**	**1,057,625**
Cumulative Gap	**(1,424,000)**	**(1,116,364)**	**383,926**	**1,233,319**	**1,057,625**	

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

2) Market rate risk (Continued)

a) Profit rate risk (Continued)

The table below summarizes the Company's exposure to profit rate risks:

	Profit bearing					
31 December 2019	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and cash equivalents	--	--	--	--	7,876	7,876
Investments	--	--	--	--	11,922	11,922
Murabaha receivables, net	6,888	21,026	66,677	28,859	--	123,450
Ijara receivables, net	187,007	1,092,669	1,283,958	453,095	--	3,016,729
Ijara Mawsofa Fi Athemmah receivables, net	814	52,966	476	3,193		57,449
Positive fair value of derivatives	--	--	--	--	71	71
Other receivables	--	--	--	--	37,499	37,499
Total assets	194,709	1,166,661	1,351,111	485,147	57,368	3,254,996
Liabilities						
Other liabilities	334	1,661	8,444	11,544	116,145	138,128
Negative fair value of derivatives	--	--	--	--	3,621	3,621
Borrowings	1,638,188	390,097	52,147	--	--	2,080,432
Total liabilities	1,638,522	391,758	60,591	11,544	119,766	2,222,181
Gap	(1,443,813)	774,903	1,290,520	473,603	(62,398)	1,032,815
Cumulative Gap	(1,443,813)	(668,910)	621,610	1,095,213	1,032,815	

b) Currency risk

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

c) Liquidity risk

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

i. Analysis of financial liabilities by remaining contractual maturities

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

	Fixed maturity					
2020	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Other liabilities	**57,906**	**17,422**	**35,467**	**10,623**	**--**	**121,418**
Borrowings	**288,645**	**501,985**	**1,485,550**	**--**	**--**	**2,276,180**
SAMA deposit, net	**6,177**	**83,168**	**67,726**	**--**	**--**	**157,071**
Total	**352,728**	**602,575**	**1,588,743**	**10,623**	**--**	**2,554,669**

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

i. Analysis of financial liabilities by remaining contractual maturities (Continued)

	Fixed maturity					
2019	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Other liabilities	79,207	55,268	3,653	--	--	138,128
Borrowings	217,099	568,542	1,447,045	--	--	2,232,686
Total	296,306	623,810	1,450,698	--	--	2,370,814

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

	Fixed maturity				**No fixed maturity**	**Total**
2020	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**		
Assets						
Cash and cash equivalents	**--**	**--**	**--**	**--**	**25,051**	**25,051**
Investments	**--**	**9,603**	**--**	**--**	**893**	**10,496**
Murabaha receivables, net	**15,243**	**27,042**	**74,569**	**20,294**	**--**	**137,148**
Ijara receivables, net	**281,999**	**457,442**	**1,518,913**	**876,687**	**--**	**3,135,041**
Ijara mawsofa fi athemmah receivables, net	**1,061**	**3,450**	**18,506**	**57,061**	**--**	**80,078**
Prepayments and other assets	**64,797**	**65,874**	**683**		**--**	**131,354**
Property and equipment	**2,550**	**7,650**	**29,691**	**7,650**	**13,650**	**61,191**
Total assets	**365,650**	**571,061**	**1,642,362**	**961,692**	**39,594**	**3,580,359**
Liabilities						
Account payables and other accruals	**60,390**	**19,907**	**35,467**	**10,623**	**--**	**126,387**
Negative fair value of derivatives	**--**	**--**	**11,255**	**--**	**--**	**11,255**
Zakat and income tax payable	**16,494**	**5,389**	**9,964**	**--**	**--**	**31,847**
Borrowings	**287,014**	**479,620**	**1,328,036**	**--**	**--**	**2,094,670**
SAMA deposit, net	**4,901**	**80,387**	**66,893**	**--**	**--**	**152,181**
Employees benefits	**--**	**--**	**--**	**--**	**15,592**	**15,592**
Total liabilities	**368,799**	**585,303**	**1,451,615**	**10,623**	**15,592**	**2,431,932**

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

i. Analysis of financial liabilities by remaining contractual maturities (Continued)

	Fixed maturity				No fixed maturity	Total
2019	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets						
Cash and cash equivalents	--	--	--	--	7,876	7,876
Investments	--	11,029	--	--	893	11,922
Murabaha receivables, net	6,888	21,026	66,677	28,859	--	123,450
Ijara receivables, net	200,873	438,636	1,527,319	849,901	--	3,016,729
Ijara Mawsofa Fi Athemmah receivables, net	913	2,593	12,105	41,838	--	57,449
Positive fair value of derivatives	71	--	--	--	--	71
Prepayments and other assets	47,191	79,244	1,212	--	--	127,647
Property and equipment	1,468	4,403	25,398	15,142	13,650	60,061
Total assets	257,404	556,931	1,632,711	935,740	22,419	3,405,205
Liabilities						
Account payables and other accruals	84,056	60,119	3,654	--	-	147,829
Negative fair value of derivatives	--	--	3,621	--	--	3,621
Zakat and income tax payable	15,441	5,389	13,550	--	--	34,380
Borrowings	196,633	518,277	1,365,522	--	--	2,080,432
Employees benefits	--	--	--	--	13,666	13,666
Total liabilities	296,130	583,785	1,386,347	--	13,666	2,279,928

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets consist of cash and cash equivalents, investments, derivatives, Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivable and other receivable. Financial liabilities consist of borrowings, payables and derivatives.

The following table shows the carrying amount and fair values of financial assets and financial liabilities where fair value is different from carrying value or where the financial assets and liabilities are recorded at fair value, including their levels in the fair value hierarchy.

		Fair value			
2020	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Investments	**10,496**	**--**	**--**	**10,496**	**10,496**
Murabaha receivables, net	**137,148**	**--**	**--**	**136,171**	**136,171**
Ijara receivables, net	**3,135,041**	**--**	**--**	**3,078,670**	**3,078,670**
Ijara mawsofa fi athemmah receivables, net	**80,078**	**--**	**--**	**80,065**	**80,065**
Financial liabilities:					
Negative fair value of derivatives	**11,255**	**--**	**--**	**11,255**	**11,255**

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25 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

2019	Carrying value	Fair value Level 1	Level 2	Level 3	Total
Financial assets:					
Investments	11,922	--	--	11,922	11,922
Murabaha receivables, net	123,450	--	--	123,748	123,748
Ijara receivables, net	3,016,729	--	--	3,045,905	3,045,905
Ijara mawsofa fi athemmah receivables, net	57,449	--	--	63,692	63,692
Positive fair value of derivatives	71	--	--	71	71
Financial liabilities:					
Negative fair value of derivatives	3,621	--	--	3,621	3,621

The valuation of fixed rate Murabaha receivables, Ijara receivables and Ijara Mowsofa Fi Athemmah receivables are estimated using contractual cash flows discounted at latest yield, which is the contracted profit rate for recent transactions. Input into the discounted cash flow technique includes recent yields and contractual cash flows.

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

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

26 CAPITAL ADEQUACY

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base. Capital adequacy ratios as monitored and measured by the management below measure capital adequacy by comparing the Company's eligible capital with its statement of financial position, commitments and notional amount of derivatives, if any, at a weighted amount determined by management to reflect their relative risk.

	2020		2019	
	Total capital ratio %	**Tier I capital ratio %**	Total capital ratio %	Tier I capital ratio %
Capital adequacy ratio	**41.99**	**42.40**	43.16	43.30

27 COMMITMENTS AND CONTINGENCIES

Financing facilities approved but not utilised:
The Company has facilities approved but not utilised, indicative offers issued which are under consideration of the customers as of the reporting date which have the potential to convert into financing amounting to SR 135 million (31 December 2019: SR 218 million).

VAT:
In 2019, GAZT issued an assessment on VAT returns for the period from January 2018 to January 2019 and claimed an amount of SR 19.9 million. The Company paid SR 9.2 million in respect of VAT variances and recorded the amount as receivable from GAZT and issued a bank guarantee in respect of the remaining amount. The Company also filed an appeal clarifying its position on the assessment received from GAZT.

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27 COMMITMENTS AND CONTINGENCIES (CONTINUED)

During the year, GAZT partially accepted the Company's appeal and revised its assessment by reducing their claim from SR 19.9 million to SR 14.69 million. The Company filed an appeal with the General Secretary of Tax Committee ('GSTC') against the revised claim and the Company reached a final settlement with the GAZT whereby the claimed amount has been reduced from SR 14.69 million to SR 5.6 million. This SR 5.6 million amount was settled against payment made by the Company in 2019. As of the year end, the Company has SR 3.6 million receivable from GAZT in respect of assessed period.

28 SEGMENT INFORMATION

The Company objective is to provide financing for real estate leases in the Kingdom of Saudi Arabia. All assets, liabilities and operations as reflected in the statement of financial position and statement of comprehensive income belongs to the real estate financing segment.

For management purposes, the Company is organised into the following primary business segments:

Retail
These represents finance products granted to small and medium sized businesses and individuals.

Corporate
These represents financing products granted to corporate, high net worth individuals and institutional customers.

Head office
Head office is responsible for managing the surplus liquidity of the Company through short term market placements. It also provides support services to the business functions.

The Company's total assets and liabilities at 31 December 2020 and 2019 and its total operating income, expenses and net income for the years then ended are as follows:

	Retail	Corporate	Head office	Total
2020				
Income	**86,316**	**187,757**	**--**	**274,073**
Expenses	**49,395**	**109,284**	**--**	**158,679**
Segment profit	**36,921**	**78,473**	**--**	**115,394**
Total assets	**969,537**	**2,524,581**	**86,241**	**3,580,359**
Total liabilities	**612,518**	**1,684,490**	**134,924**	**2,431,932**
2019				
Income	96,537	196,089	--	292,626
Expenses	64,516	126,051	--	190,567
Segment profit / (loss)	32,021	70,038	--	102,059
Total assets	1,014,165	2,323,031	68,009	3,405,205
Total liabilities	652,968	1,505,869	121,091	2,279,928

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28 SEGMENT INFORMATION (CONTINUED)

Below is the reconciliation of revenue and expenses from financial statements to operating segment note:

	For the year ended 31 December	
	2020	2019
Income		
Total income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah	**278,723**	296,345
Fee expenses	**(2,636)**	(2,843)
Other loss	**(2,014)**	(876)
Total income – as per operating segment note.	**274,073**	292,626
Expenses		
Finance cost	**(65,100)**	(93,767)
Depreciation	**(6,418)**	(3,501)
General and administrative expenses	**(70,821)**	(78,404)
Selling and marketing expenses	**(10,912)**	(13,143)
Impairment charge for credit losses, net	**(5,428)**	(1,752)
Total expense – as per operating segment note.	**(158,679)**	(190,567)

29 SAMA SUPPORT PROGRAMS AND INITIATIVES

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

- Deferred payments program; and
- Facility guarantee 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 those companies that qualify as MSME. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company has effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months and then further deferring the instalments falling due within the period from 15 September 2020 to 14 December 2020 for a period of three months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in the Company recognizing an modification loss of SR 3.97 million which have been presented as part of income from respective receivables.

Further to the above, SAMA on 14 December 2020 extended the deferred payment program until 31 March 2021. The Company has affected the payment reliefs by deferring the instalments falling due within the period from 15 December 2020 to 31 March 2021 without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of the arrangement. This resulted in the Company recognizing an additional modification loss of SR 3.62 million which have been presented as part of income from respective receivables.

29 SAMA SUPPORT PROGRAMS AND INITIATIVES (CONTINUED)

As a result of the above program and related extensions, the Company has deferred the payments SR 208.8 million on MSMEs portfolio and accordingly, has recognised total modification losses of SR 7.59 million during the year of which SR 3.49 million have been unwound. As at 31 December 2020, the total exposures against these customers amounted to SR 690.64 million.

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 continues to monitor the lending portfolios closely and reassess the provisioning levels as the situation around COVID-19 evolves; however, management has taken SR 2.94 million of overlays to reflect potential further credit deterioration.

As at 31 December 2020, the Company has exposure of SR 627.13 million, SR 260.23 million and SR 278.18 million in stage 1, stage 2 and stage 3 for MSMEs customers with the corresponding provision against these exposure of SR 2.03 million, SR 3.69 million and SR 54.92 million respectively.

Further, in accordance with the PSFSP, the Company was also eligible for the deferral of its loan instalments payment to banks and Saudi Real Estate Re-financing Company for the period from 14 March 2020 to 14 September 2020. Accordingly, the Company recognised a modification gain of SR 8.72 million during the year ended 31 December 2020 of which SR 7.83 million have been unwound.

Furthermore, in order to compensate for the related costs that the Company incurred under the SAMA's deferred payments program from 15 September to 31 March 2020, the Company has received SR 157.07 million commission free deposit in two tranches from SAMA during the year ended 31 December 2020, with varying maturities. Management has determined, based on the communication from SAMA, that the government grant primarily relates to the compensation of the modification loss incurred on the deferred payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 4.89 million which has been recognised in the statement of profit and loss. The management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended 31 December 2020, SR 0.38 million has been charged to the statement of profit or loss relating to unwinding of the day 1 income.

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

30 SUBSEQUENT EVENTS

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

31 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 11 Rajab 1442H (corresponding to 23 February 2021).