AMLAK INTERNATIONAL FOR
REAL ESTATE FINANCE COMPANY
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2021
together with the
INDEPENDENT AUDITOR'S REPORT

KPMG Professional Services
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P. O. Box 92876
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Kingdom of Saudi Arabia
Commercial Registration No. 1010425494

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية
واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

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 2021, 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 information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Opinion

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

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of 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 the 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 2021, the gross murabaha receivables, ijara receivables and ijara mowsofa fi athema receivables before impairment were SAR 144 million, SAR 3,270 million and SAR 83 million respectively, against which the company holds an expected credit loss ("ECL") allowance of SAR 0.85 million, SAR 88.2 million and SAR 0.12 million respectively.	We 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 madeduring the year.

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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)

<table>
<tr><th>The key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
We considered this as a key audit matter, as 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 continues to pose challenges to business thus increasing the level of judgement and uncertainty needed to determine ECL. The key areas of judgement include:
1. Categorisation of receivables into Stages 1, 2 and 3 based on the identification of:
a) exposures with a significant increase in credit risk (“SICR”) since their origination; and
b) individually impaired / default exposures.
The Company has applied additional judgements to identify and estimate 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 need to apply model overlays using expert credit judgement to reflect all relevant risk factors especially relating to ongoing COVID-19 pandemic, that might not have been captured by the ECL model.
Application of these judgements, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as at 31 December 2021.
Refer to the summary of significant accounting policies note 3(g) 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 and factors considered in determination of ECL.
</td><td>
We compared the Company’s accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9.
We assessed 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 continued 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 appropriateness of 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, with specific focus on customers operating in sectors most effected by the COVID - 19 pandemic, particularly those that continue to be eligible for deferral of instalments under government support programs based on SAMA regulations and eligible definition for the effected customers and industry as at 31 December 2021.
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.
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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
	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 2021. 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 and appropriateness of disclosures in the financial statements.

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 but does not include 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.

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

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

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

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

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

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

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.

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Independent Auditor's Report

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

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.

KPMG Professional Services

Fahad Mubarak Al Dossari
License No.: 469

Al Riyadh, Rajab 29, 1443 H
Corresponding to: March 2, 2022

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2021
(SR '000)

	Notes	**2021**	2020
ASSETS			
Cash and cash equivalents	*4*	**8,818**	25,051
Investments	*5*	**9,878**	10,496
Murabaha receivables, net	*6*	**143,573**	137,148
Ijara receivables, net	*7*	**3,181,997**	3,135,041
Ijara mawsofa fi athemmah receivables, net	*8*	**83,129**	80,078
Prepayments and other assets	*9*	**93,838**	131,354
Property, equipment and right of use assets, net	*10*	**46,238**	61,191
Total assets		**3,567,471**	3,580,359
LIABILITIES AND EQUITY			
Account payables and other accruals	*11*	**73,614**	126,387
Negative fair value of derivatives	*12*	**4,253**	11,255
Zakat and income tax payable	*13*	**25,272**	31,847
Borrowings	*14*	**2,039,876**	2,094,670
SAMA deposit, net	*28*	**217,592**	152,181
Employees' end of service benefits	*15*	**15,843**	15,592
Total liabilities		**2,376,450**	2,431,932
Share capital	*16*	**906,000**	906,000
Statutory reserve	*17*	**89,081**	78,306
Cash flow hedge reserve	*12*	**(4,253)**	(11,255)
Retained earnings		**200,193**	175,376
Total equity		**1,191,021**	1,148,427
Total liabilities and equity		**3,567,471**	3,580,359

Murad Alsadiq	Abdullah Al Sudairy	Abdullah Al Howaish
Chief Finance Officer	Chief Executive Officer	Chairman

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

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2021
(SR '000)

	Notes	**2021**	2020
INCOME			
Income from Murabaha contracts		**12,743**	14,541
Income from Ijara contracts		**240,741**	240,504
Income from Ijara mawsofa fi athemmah contracts		**7,949**	7,467
Gain on sale of portfolio		**1,625**	1,459
Fees and commission income		**21,399**	14,752
Total income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah		**284,457**	278,723
EXPENSES			
Finance cost		**(54,219)**	(65,100)
Fee expense		**(1,838)**	(2,636)
Net income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah		**228,400**	210,987
Other operating gain / (loss)			
Other gain / (loss)		**3,733**	(2,014)
		232,133	208,973
Operating expenses			
Depreciation	*10*	**(8,788)**	(6,418)
General and administrative expenses	*21*	**(88,238)**	(70,821)
Selling and marketing expenses	*22*	**(13,555)**	(10,912)
Impairment reversal / (charge) for expected credit losses, net		**1,783**	(5,428)
Net income for the year before zakat and income tax		**123,335**	115,394
Zakat and income tax expense	*13*	**(15,582)**	(16,494)
Net income for the year		**107,753**	98,900
Basic and diluted earnings per share (SR)	*19*	**1.19**	1.09

Murad Alsadiq
Chief Finance 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 COMPREHENSIVE INCOME
For the year ended 31 December 2021
(SR '000)

	Note	2021	2020
Net income for the year		**107,753**	98,900
Other comprehensive income / (loss)			
Items that may be reclassified to statement of profit or loss in subsequent years:			
Net change in fair value of cash flow hedges		**7,002**	(7,705)
Items that will not to be reclassified to statement of profit or loss in subsequent years:			
Actuarial gain / (loss) on defined benefit plan	15	**320**	(95)
Total other comprehensive income / (loss)		**7,322**	(7,800)
Total comprehensive income for the year		**115,075**	91,100

Murad Alsadiq	Abdullah Al Sudairy	Abdullah Al Howaish
Chief Finance Officer	Chief Executive Officer	Chairman

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

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021
(SR '000)

	Share Capital	Statutory reserve	Cash flow hedge reserve	Retained earnings	Total
For the year ended 31 December 2021					
Balance at 1 January 2021	**906,000**	**78,306**	**(11,255)**	**175,376**	**1,148,427**
Net income for the year	--	--	--	**107,753**	**107,753**
Other comprehensive income	--	--	**7,002**	**320**	**7,322**
Total comprehensive income	--	--	**7,002**	**108,073**	**115,075**
Transfer to statutory reserve (note 17)	--	**10,775**	--	**(10,775)**	--
Dividend (note 18)	--	--	--	**(72,481)**	**(72,481)**
Balance at 31 December 2021	**906,000**	**89,081**	**(4,253)**	**200,193**	**1,191,021**
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

Murad Alsadiq
Chief Finance Officer

Abdullah Al Sudairy
Chief Executive Officer

Abdullah Al Howaish
Chairman

The accompanying notes 1 to 30 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 2021
(SR '000)

	Notes	2021	2020
Cash flows from operating activities:			
Net income for the year before zakat and income tax		**123,335**	115,394
Non-cash adjustment to reconcile net income before zakat and income tax for the year to net cash used in operating activities			
Depreciation	10	**8,788**	6,418
Finance cost		**54,432**	70,877
Employees' end of service benefits	15	**2,497**	3,017
Impairment allowance for expected credit losses, net		**(1,783)**	8,469
Gain on sale of portfolio		**594**	(1,459)
Modification loss on Murabaha and Ijara receivables, net	28	**(2,990)**	4,104
Modification gain on borrowings, net	28	**888**	(887)
Gain on SAMA deposit, net	28	**(1,101)**	(4,890)
Gain on sale of Property and Equipment		**(2,625)**	--
Other (Income) / Loss		**90**	1,428
		182,125	202,471
(Increase) / decrease in operating assets			
Murabaha receivables		**(5,863)**	(15,938)
Ijara receivables		**(45,560)**	(128,588)
Ijara Mawsofa Fi Athemmah receivables		**(832)**	(22,686)
Prepayments and other assets		**37,516**	(2,248)
Increase / (decrease) in operating liabilities			
Account payables and other accruals		**(50,600)**	(23,737)
		116,786	9,274
Finance cost paid	14	**(52,322)**	(72,964)
Employees' end of service benefits paid	15	**(1,926)**	(1,186)
Zakat and income tax paid	13	**(22,315)**	(19,926)
Net cash generated from/ (used in) operating activities		**40,223**	(84,802)
Cash flows from investing activities			
Purchase of property and equipment	10	**(5,953)**	(5,460)
Sale of property and equipment		**16,275**	--
Net cash generated from/ (used in) investing activities		**10,322**	(5,460)
Cash flows from financing activities			
Repayment of borrowings	14	**(1,726,747)**	(1,686,844)
Proceeds from borrowings	14	**1,669,500**	1,705,941
SAMA deposit received		**204,973**	157,071
SAMA deposit paid		**(138,461)**	--
Dividend paid	18	**(72,481)**	(67,950)
Payment of lease liabilities		**(3,562)**	(781)
Net cash generated from/ (used in) financing activities		**(66,778)**	107,437
Net (decrease) / increase in cash and cash equivalents		**(16,233)**	17,175
Cash and cash equivalents at beginning of the year	4	**25,051**	7,876
Cash and cash equivalents at end of the year	4	**8,818**	25,051
Non-cash supplemental information:			
Net changes in fair value of cash flow hedge		**7,002**	(7,705)

Murad Alsadiq
Chief Finance Officer

Abdullah Al Sudairy
Chief Executive Officer

Abdullah Al Howaish
Chairman

The accompanying notes 1 to 30 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 has been established in Jeddah by the Company in 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 subsidiary, Amlak International For Real Estate Development Company (the "Subsidiary"), which has a share capital of SAR 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 to the 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 Chartered and Professional 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.

(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.

2 BASIS OF PREPARATION (CONTINUED)

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

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.

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 Ijara contracts 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.

2 BASIS OF PREPARATION (CONTINUED)

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

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 financial statements for the year ended 31 December 2020. The following accounting policies are applicable effective 1 January 2021 replacing, amending or adding to the corresponding accounting policies set out in 2020 annual audited financial statements.

New standards, interpretations and amendments adopted by the Company
Following standard, interpretation or amendment are effective from the current year and are adopted by the Company, however, these does not have any impact on the financial statements of the year:

Standard, interpretation, amendments	Description	Effective date
Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform –Phase 2	The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform Whilst adoption is not mandatory for September 2021 year ends, earlier application is permitted.	Annual periods beginning on or after 1 January 2021
Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.	Annual periods beginning on or after 1 June 2020

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Accounting standards issued but not yet effective

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Company's accounting year beginning 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.

Standard, interpretation, amendments	Description	Effective date
Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.	Annual periods beginning on or after 1 April 2021
A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16	Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.	Annual periods beginning on or after 1 January 2022.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Accounting standards issued but not yet effective (Continued)

Standard, interpretation, amendments	Description	Effective date
Amendments to IAS 1, Presentation of financial statements', on classification of liabilities	These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. Note that the IASB has issued a new exposure draft proposing changes to this amendment.	Deferred until accounting periods starting not earlier than 1 January 2024
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	Annual periods beginning on or after 1 January 2023
Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction	These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	Annual periods beginning on or after 1 January 2023.
IFRS 17, 'Insurance contracts', as amended in June 2020	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.	Annual periods beginning on or after 1 January 2023.
A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts	The amendment relates to insurers' transition to the new Standard only—it does not affect any other requirements in IFRS 17. IFRS 17 and IFRS 9 Financial Instruments have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time. The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.	Annual periods beginning on or after 1 January 2023.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) *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

d) *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.

e) *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.

f) *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.

g) *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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Impairment (continued)

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Impairment (continued)

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 yearly basis.

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

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.

h) 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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

- 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.

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 years, 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

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

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

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

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

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

Modifications of financial assets and financial liabilities (continued)

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.

i) 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 rate 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 or the amortized cost of the financial instrument.

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 rate 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Income / expenses recognition (Continued)

Measurement of amortized cost and income (Continued)

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 Zakat, Tax and Custom Authority ("ZATCA") 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Fair value measurement (continued)

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.

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 ZATCA 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

(SR'000)

4 CASH AND CASH EQUIVALENTS

	2021	2020
Cash in hand	**30**	30
Cash at bank – current accounts (note 4.1)	**8,788**	25,021
	8,818	25,051

4.1 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

	2021	2020
Investment at FVTPL (note 5.1)	**8,985**	9,603
Investment at FVOCI	**893**	893
	9,878	10,496

5.1 Investment at FVTPL represents investment in 120 units of SAIB Saraya Tower Real Estate Development Fund (2020: 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:

	2021	2020
Cost at the beginning and end of the year	**12,000**	12,000
Unrealised loss:		
At beginning of the year	**(2,397)**	(971)
Change in fair value, net	**(618)**	(1,426)
At end of the year	**(3,015)**	(2,397)
Net carrying amount	**8,985**	9,603

6 MURABAHA RECEIVABLES, NET

	2021	2020
Gross Murabaha receivables	**144,423**	141,357
Less: Impairment allowance for credit losses	**(850)**	(4,209)
Murabaha receivables, net	**143,573**	137,148

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

	2021	2020
Days past due:		
1 – 30	**--**	382
31 – 60	**10,309**	--
61 –90	**36,903**	45,108
Total	**47,211**	45,490

The fair value of collaterals, based on latest independent appraisals, held against impaired Murabaha receivables as at 31 December 2021 was SR 5.4 million (2020: SR 14.13 million).

(SR'000)

6 MURABAHA RECEIVABLES, NET (CONTINUED)

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

	2021	2020
Not later than one year	**39,774**	43,462
Later than one year but not later than five years	**101,987**	76,954
Later than five years	**2,662**	20,941
Total	**144,423**	141,357

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.

	2021	2020
Less than 50%	**67,939**	45,078
51-70%	**39,582**	51,169
71-85%	**36,903**	45,110
Total Exposure	**144,423**	141,357

7 IJARA RECEIVABLES, NET

	2021	2020
Gross Ijara receivables	**4,294,125**	4,304,077
Less: Unearned income	**(1,023,899)**	(1,081,807)
	3,270,226	3,222,270
Less: Impairment allowance for credit losses	**(88,229)**	(87,229)
Ijara receivables, net	**3,181,997**	3,135,041

During the year, the Company has written-off receivables amounting to SR 2.8 million (31 December 2020: SR 1.3 million).

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

Days past due:	**2021**	2020
1 – 30	**102,647**	153,039
31 – 60	**30,406**	51,801
61 –90	**43,771**	29,329
Total	**176,824**	234,169

The fair value of collaterals, based on latest independent appraisals, held against impaired Ijara receivables as at 31 December 2021 was SR 397.90 million (2020: SR 313.75 million).

(SR'000)

7 IJARA RECEIVABLES, NET (CONTINUED)

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

	2021			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara receivables	**946,945**	**2,169,878**	**1,177,302**	**4,294,125**
Less: Unearned income	**(224,632)**	**(524,616)**	**(274,651)**	**(1,023,899)**
	722,313	**1,645,262**	**902,651**	**3,270,226**
Less: Impairment allowance for credit losses				**(88,229)**
Ijara receivables, net				**3,181,997**

	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

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.

	2021	2020
Less than 50%	**831,933**	773,553
51-70%	**970,123**	883,441
71-85%	**740,202**	1,025,017
86-100%	**563,977**	451,158
Above 100%	**163,991**	89,101
Total Exposure	**3,270,226**	3,222,270

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

	2021	2020
Gross Ijara Mawsofa Fi Athemmah receivables	**130,253**	130,411
Less: Unearned income	**(46,998)**	(47,988)
	83,255	82,423
Less: Impairment allowance for credit losses	**(126)**	(2,345)
Ijara Mawsofa Fi Athemmah receivables, net	**83,129**	80,078

(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:	**2021**	2020
31 – 60	**--**	--
61 – 90	**62**	--
Total	**62**	--

The fair value of collaterals, based on latest independent appraisals, held against impaired Ijara Mawsofa Fi Athemmah as at 31 December 2021 was SR 0.53 million (2020: SR 2.16).

8.2 The maturity profile of Ijara Mawsofa Fi Athemmah receivables as at 31 December 2021 was as follows:

	2021			
	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	**9,594**	**34,485**	**86,174**	**130,253**
Less: Unearned income	**(4,851)**	**(16,472)**	**(25,675)**	**(46,998)**
	4,743	**18,013**	**60,499**	**83,255**
Less: Impairment allowance for credit losses				**(126)**
Ijara Mawsofa Fi Athemmah receivables, net				**83,129**

	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

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.

	2021	2020
Less than 50%	**22,567**	23,945
51-70%	**25,475**	27,006
71-85%	**30,302**	25,716
86-100%	**4,911**	5,756
Total Exposure	**83,255**	82,423

(SR'000)

9 PREPAYMENTS AND OTHER ASSETS

	2021	2020
Other real estate assets	**26,859**	73,878
Value added tax receivable	**11,298**	18,344
Servicing rights (note 20)	**1,995**	4,524
Receivable from joint ventures	**1,774**	1,774
Others	**51,912**	32,834
	93,838	131,354

(SR'000)

10 PROPERTY, EQUIPEMENT AND RIGHT OF USE ASSETS, NET

2021	**Land**	**Leasehold improvements**	**Office equipment**	**Furniture and fixtures**	**Information technology equipment**	**Right of use asset***	**Capital work in Progress****	**Total**
Cost:								
Balance at beginning of the year	**13,650**	**5,736**	**1,063**	**1,469**	**34,678**	**27,738**	**2,562**	**86,896**
Additions	**-**	**14**	**94**	**60**	**3,021**	**1,532**	**2,764**	**7,485**
Transfers	**-**	**175**	**55**	**95**	**1,654**	**--**	**(1,979)**	**-**
Disposal	**(13,650)**	**-**	**-**	**-**	**-**	**--**	**-**	**(13,650)**
Balance at end of the year	**-**	**5,925**	**1,212**	**1,624**	**39,353**	**29,270**	**3,347**	**80,731**
Accumulated depreciation:								
Balance at beginning of the year	**--**	**502**	**732**	**232**	**20,585**	**3,654**	**--**	**25,705**
Charge for the year	**--**	**1,071**	**106**	**235**	**4,192**	**3,184**	**--**	**8,788**
Balance at end of the year	**--**	**1,573**	**838**	**467**	**24,777**	**6,838**	**--**	**34,493**
Net book value: At 31 December 2021	**--**	**4,352**	**374**	**1,157**	**14,576**	**22,432**	**3,347**	**46,238**

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

**Capital work in progress as at 31 December 2021 represents mainly the amount paid for information technology system implementation / upgrade.

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

2020	Land	Leasehold improvements	Office equipment	Furniture and fixtures	Information technology equipment	Right of use asset*	Capital 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.

**Capital work in progress as at 31 December 2020 represents mainly the amount paid for information technology system implementation / upgrade and the new head office.

11 ACCOUNTS PAYABLE AND OTHER ACCRUALS

	2021	2020
Lease liabilities	**22,107**	24,279
Financing to customers (note 11.1)	**20,505**	41,778
Salaries and employee related expenses	**16,054**	13,220
Accrued expenses	**9,725**	4,970
Amount received from customers (note 11.2)	**2,659**	4,293
Payable to the Ministry of Housing	**380**	754
Others (notes 11.3)	**2,184**	37,093
	73,614	126,387

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 1.8 million (2020: SR 26.02 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 2021, the Company held profit rate swaps ("PRS") of a notional value of SR 460 million (2020: SR 460 million) in order to hedge its exposure to commission rate risks related to long-term financing and leasing. The tables below summarizes the 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**
2021	**--**	**(4,253)**	**--**	**200,000**	**260,000**	**--**
2020	--	(11,255)	--	--	460,000	--

13 ZAKAT AND INCOME TAX

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

	31 December 2021		
	Zakat	**Income tax**	**Total**
Balance at the beginning of the year	**31,847**	**--**	**31,847**
Charge for the year	**15,054**	**--**	**15,054**
Unwinding of discount	**686**	**--**	**686**
Payments made during the year	**(22,315)**	**--**	**(22,315)**
Balance as at end of the year	**25,272**	**--**	**25,272**

(SR'000)

13 ZAKAT AND INCOME TAX (CONTINUED)

	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

b) Income tax reconciliation

	For the year ended 31 December	
	2021	2020
Accounting profit for the year	**123,335**	115,394
Permanent differences	**--**	--
Adjusted accounting profit for the year	**123,335**	115,394
Non-GCC shareholder share (nil)	**--**	--
Tax charge on Income @ 20%	**--**	--

c) Zakat and income tax status

Zakat and income tax declaration for all the years up till 2020 have been filed with the ZATCA and acknowledgement certificates have been obtained.

In 2019, the Company signed a settlement agreement with ZATCA 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 ZATCA all due instalments amounting to SR 22.9 million till 31 December 2021 (31 December 2020: SR 17.51 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 1 year 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 is as follows:

Borrowings:	**2021**	2020
Current portion	**727,485**	766,634
Non-current portion	**1,312,391**	1,328,036
	2,039,876	2,094,670

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

	2021	2020
Balance at beginning of the year	**2,094,670**	2,080,432
Borrowings obtained during the year	**1,669,500**	1,705,941
Principal repayments during the year	**(1,726,747)**	(1,686,844)
Profit accrued during the year	**53,888**	68,992
Profit repayments during the year	**(52,322)**	(72,964)
Modification gain on borrowing, net	**887**	(887)
Balance at end of the year	**2,039,876**	2,094,670

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:

	2021	2020
Present value of defined benefit obligation	**15,843**	15,592

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

	For the year ended 31 December	
	2021	2020
Current service cost	**2,249**	2,071
Interest cost	**248**	451
Past service cost	**-**	495
	2,497	3,017

(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	
	2021	2020
Present value of defined benefit obligation at beginning of the year	**15,592**	13,666
Charge recognised in the statement of profit or loss:		
- Current service cost	**2,249**	2,071
- Finance cost	**248**	451
- Past service cost	**--**	495
	2,497	3,017
Actuarial (loss) / gain on defined benefit plan recognized in the statement of other comprehensive income	**(320)**	95
Benefits paid	**(1,926)**	(1,186)
Present value of defined benefit obligation at end of the year	**15,843**	15,592

d) Principal actuarial assumptions:

	2021	2020
Discount rate	**2.25%**	1.6%
Salary increase rate	**2.25%**	1.6%

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 2021		31 December 2020	
	Increase	**Decrease**	Increase	Decrease
Discount rate (1% movement)	**(1,162)**	**1,325**	(1,167)	1,335
Future salary growth (1% movement)	**1,343**	**(1,200)**	1,350	(1,204)

16 SHARE CAPITAL

As at 31 December 2021, the Company's authorised, issued and paid-up share capital was SR 906 million (31 December 2020: SR 906 million) divided into 90.6 million shares (31 December 2020: 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 10.77 million (31 December 2019: SR 9.9 million) to statutory reserve.

18 DIVIDENDS

During the current year, the shareholders in the annual general meeting held on 24 May 2021 approved and declared a dividend of SR 72.48 million for the year 2020 (31 December 2020: SR 67.95 million for the year 2019), 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.

	2021	2020
Profit for the year *(SR '000)*	**107,753**	98,900
Weighted average number of ordinary shares *(in thousands)*	**90,600**	90,600
Basic and diluted earnings per share *(SR)*	**1.19**	1.09

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 161.61 million (31 December 2020: SR 459.67 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 2021 amounted to SR 805 million (2020: SR 722.61 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	
	2021	2020
Salaries and employee related cost	**57,728**	52,194
Professional fee	**5,783**	1,880
Information technology expenses	**4,795**	2,469
Board fee and expenses	**4,343**	3,655
Rent and other expenses	**1,038**	648
Communication	**998**	949
Maintenance expenses	**953**	630
Travelling expenses	**624**	465
Others	**11,976**	7,931
	88,238	70,821

(SR'000)

22 SELLING AND MARKETING EXPENSES

	For the year ended 31 December	
	2021	2020
Salaries and outsourcing cost	**5,855**	6,576
Insurance	**5,391**	3,123
Marketing expenses	**2,309**	1,213
	13,555	10,912

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 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	Relationship	Amounts of transactions for the year ended 31 December	
			2021	2020
Borrowing cost	The Saudi Investment Bank	Shareholder	**5,257**	16,457
Rent expense	Yanal Finance Company	Affiliate	**--**	132
Security and other expenses	Yanal Finance Company	Affiliate	**--**	10
Salaries and benefits	Key management personnel	Key management	**14,709**	11,183
Financing Income	Key management personnel	Key management	**152**	249
Board meeting fees and other expenses	Board members	Board members	**4,343**	3,655
Insurance	SABB Takaful	Affiliate	**1,016**	--

(SR'000)

23 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Nature of balances and names of related parties	Relationship	Balances 2021	Balances 2020
Bank balances:			
The Saudi Investment Bank	Shareholder	**1,805**	6,627
Due from related parties:			
Alistithmar Capital	Affiliate	**1,774**	1,774
Borrowings:			
The Saudi Investment Bank	Shareholder	**450,446**	455,667
Financing and advances:			
Key management personnel	Key management	**628**	3,219
Investment at FVTPL:			
SAIB Saraya Tower Real Estate Development Fund	Affiliate	**8,985**	9,603
Other receivables:			
Amlak International For Real Estate Development	Subsidiary	**305**	305
Board meeting and other expenses payable			
Board members	Board members	**3,900**	3,889

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 and 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:

	2021	2020
Cash and cash equivalents	**8,818**	25,021
Murabaha receivables, net	**143,573**	137,148
Ijara receivables, net	**3,181,997**	3,135,041
Ijara mawsofa fi athemmah receivables, net	**83,129**	80,078
Other receivables	**62,634**	49,335
	3,480,151	3,426,623

(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.

2021:

Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Stage 1 - 12 month ECL Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 1 to 4-	**648,880**	**529**	**648,351**
Grades 5+ to 7-	**713,384**	**2,018**	**711,366**
Unrated	**877,728**	**1,322**	**876,406**
Total	**2,239,992**	**3,869**	**2,236,123**

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-	**124,278**	**202**	**124,076**
Grades 5+ to 7-	**686,527**	**12,548**	**673,979**
Unrated	**103,275**	**611**	**102,664**
Total	**914,080**	**13,361**	**900,719**

Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Stage 3 - Lifetime ECL (credit impaired) Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 5+ to 7-	**132,998**	**20,268**	**112,730**
Grades 8 to 10	**174,058**	**45,871**	**128,187**
Unrated	**36,776**	**5,836**	**30,940**
Total	**343,832**	**71,975**	**271,857**

2020:

Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Stage 1 - 12 month ECL 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

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

a) Credit quality analysis (Continued)

	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

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, various support programs have been offered to the customers either voluntarily by the Company or on account of SAMA initiatives, such as customers eligible under Deferred Payments Program (refer note 28 for further details). The exercise of the deferment option by a customer, in its own, is not consider 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 the pandemic, 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.

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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 2021**	31 December 2020
Oil prices	**Base case 70%** **Downside 30%**	Base case 70% Downside 30%
Gross domestic product	**Base case 70%** **Downside 30%**	Base case 70% Downside 30%

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.

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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 2021, 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 maintained 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 2021 ECL model**			Forecast calendar years used in 2020 ECL model		
	2022	**2023**	**2024**	2021	2022	2023
GDP	**4.83%**	**2.78%**	**2.82%**	3.10%	3.44%	2.55%
Oil price	**\$70.50**	**\$67.58**	**\$68.89**	\$50.23	\$49.57	\$49.08

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 due to continued 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) (2021)
Macro-economic factors:	
Increase in $10 oil price per barrel	470
Increase in $20 oil price per barrel	865
Decrease in $10 oil price per barrel	(568)
Decrease in $20 oil price per barrel	(1,279)
Increase in GDP by 5%	2
Decrease in GDP by 5%	(3)
Scenario weightages:	
Base scenario increase by 5% with corresponding change in downside	(175)
Base scenario decrease by 5% with corresponding change in downside	175
Base scenario increase by 5% with corresponding change in upside	330

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 2021.

GROSS EXPOSURE - CORPORATE	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2021	**729,523**	**317,241**	**278,184**	**1,324,948**
Transfer from 12 Month ECL	--	--	--	--
Transfer from Lifetime ECL (not credit impaired)	**17,535**	**(42,045)**	**24,510**	--
Transfer from Lifetime ECL (credit impaired)	--	**7,245**	**(7,245)**	--
Net repayment received during the year	**(220,376)**	**(10,297)**	**(78,559)**	**(309,232)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**254,060**	--	--	**254,060**
Write-offs	--	--	**(4,148)**	**(4,148)**
Balance at 31 December, 2021	**780,742**	**272,144**	**212,742**	**1,265,628**

(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, 2021	**2,175**	**4,379**	**54,922**	**61,476**
Transfer from 12 Month ECL	--	--	--	--
Transfer from Lifetime ECL (not credit impaired)	**101**	**(325)**	**224**	--
Transfer from Lifetime ECL (credit impaired)	--	**543**	**(543)**	--
Net re-measurement of loss allowance	**(291)**	**3,330**	**(1,752)**	**1,287**
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	**(655)**	**(801)**	**(1,146)**	**(2,602)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**653**	--	--	**653**
Write-offs	--	--	**(2,810)**	**(2,810)**
Balance at 31 December, 2021	**1,983**	**7,126**	**48,895**	**58,004**

GROSS EXPOSURE - HIGH NET WORTH INDIVIDUALS	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2021	**399,098**	**665,461**	**91,864**	**1,156,423**
Transfer from 12 Month ECL	**(43,903)**	**25,502**	**18,401**	--
Transfer from Lifetime ECL (not credit impaired)	**7,504**	**(51,311)**	**43,807**	--
Transfer from Lifetime ECL (credit impaired)	--	**36,097**	**(36,097)**	--
Net repayment received during the year	**(117,784)**	**(180,188)**	**(23,660)**	**(321,632)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**336,606**	**43,100**	--	**379,706**
Balance at 31 December, 2021	**581,521**	**538,661**	**94,315**	**1,214,497**

LOSS ALLOWANCE - HIGH NET WORTH INDIVIDUALS	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2021	**331**	**4,891**	**16,096**	**21,318**
Transfer from 12 Month ECL	**(36)**	**23**	**13**	--
Transfer from Lifetime ECL (not credit impaired)	**32**	**(286)**	**254**	--
Transfer from Lifetime ECL (credit impaired)	-	**4,005**	**(4,005)**	--
Net re-measurement of loss allowance	**(51)**	**(1,934)**	**5,125**	**3,140**
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	**(72)**	**(1,526)**	**(238)**	**(1,836)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**360**	**450**	--	**810**
Balance at 31 December, 2021	**564**	**5,623**	**17,245**	**23,432**

(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, 2021	**727,006**	**193,143**	**44,530**	**964,679**
Transfer from 12 Month ECL	**(7,852)**	**7,015**	**837**	--
Transfer from Lifetime ECL (not credit impaired)	**52,417**	**(61,326)**	**8,909**	--
Transfer from Lifetime ECL (credit impaired)	**2,242**	**8,219**	**(10,461)**	--
Net repayment received during the year	**(266,882)**	**(49,547)**	**(7,170)**	**(323,599)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**370,797**	**5,771**	**131**	**376,699**
Balance at 31 December, 2021	**877,728**	**103,275**	**36,776**	**1,017,779**

LOSS ALLOWANCE - RETAIL	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2021	**3,339**	**963**	**6,687**	**10,989**
Transfer from 12 Month ECL	**(9)**	**7**	**2**	--
Transfer from Lifetime ECL (not credit impaired)	**286**	**(319)**	**33**	--
Transfer from Lifetime ECL (credit impaired)	**237**	**805**	**(1,042)**	--
Net re-measurement of loss allowance	**(565)**	**(712)**	**961**	**(316)**
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	**(2,529)**	**(200)**	**(805)**	**(3,534)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**563**	**67**	**--**	**630**
Balance at 31 December, 2021	**1,322**	**611**	**5,836**	**7,769**

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

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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, 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

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.

	2021	2020
Change in basis points	**Impact on net income**	Impact on net income
+100	**(5,152)**	(6,002)
-100	**5,152**	6,002

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 2021	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
Cash and cash equivalents	--	--	--	--	8,818	8,818
Investments	--	--	--	--	9,878	9,878
Murabaha receivables, net	20,208	19,215	101,489	2,661	--	143,573
Ijara receivables, net	294,162	396,076	1,595,971	895,788	--	3,181,997
Ijara mawsofa fi athemmah receivables, net	1,375	3,361	17,988	60,405	--	83,129
Other receivables	--	--	--	--	62,634	62,634
Total assets	315,745	418,652	1,715,448	958,854	81,330	3,490,029
Liabilities						
Other liabilities	954	2,863	15,269	3,020	83,326	105,432
Negative fair value of derivatives	--	--	--	--	4,253	4,253
Borrowings	275,191	452,294	1,312,391	--	--	2,039,876
SAMA deposit, net	--	--	--	--	217,592	217,592
Total liabilities	276,145	455,157	1,327,660	3,020	305,171	2,367,153
Gap	39,600	(36,505)	387,788	955,834	(223,841)	1,122,876
Cumulative Gap	39,600	3,095	390,883	1,346,717	1,122,876	

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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 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	

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					
2021	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Other liabilities	**33,431**	**35,951**	**32,727**	**3,325**	**-**	**105,434**
Borrowings	**280,899**	**490,739**	**1,452,498**	**-**	**-**	**2,224,136**
SAMA deposit, net	**44,534**	**80,017**	**99,031**	**-**	**-**	**223,582**
Total	**358,864**	**606,707**	**1,584,256**	**3,325**	**-**	**2,553,152**

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FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

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

2020	Fixed maturity: 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

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

2021	**Fixed maturity: Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and cash equivalents	**--**	**--**	**--**	**--**	**8,818**	**8,818**
Investments	**--**	**8,985**	**--**	**--**	**893**	**9,878**
Murabaha receivables, net	**20,208**	**19,215**	**101,489**	**2,661**	**--**	**143,573**
Ijara receivables, net	**294,162**	**396,076**	**1,595,971**	**895,788**	**--**	**3,181,997**
Ijara mawsofa fi athemmah receivables, net	**1,375**	**3,361**	**17,988**	**60,405**	**--**	**83,129**
Prepayments and other assets	**51,597**	**33,727**	**7,049**	**1,465**	**--**	**93,838**
Property and equipment	**2,310**	**6,929**	**36,999**	**--**	**--**	**46,238**
Total assets	**369,652**	**468,293**	**1,759,496**	**960,319**	**9,711**	**3,567,471**
Liabilities						
Account payables and other accruals	**34,963**	**20,057**	**15,269**	**3,325**	**--**	**73,614**
Negative fair value of derivatives	**--**	**1,893**	**2,360**	**--**	**--**	**4,253**
Zakat and income tax payable	**--**	**20,490**	**4,782**	**--**	**--**	**25,272**
Borrowings	**275,191**	**452,294**	**1,312,391**	**--**	**--**	**2,039,876**
SAMA deposit, net	**43,589**	**76,379**	**97,624**	**--**	**--**	**217,592**
Employees benefits	**792**	**2,376**	**12,675**	**--**	**--**	**15,843**
Total liabilities	**354,535**	**573,489**	**1,445,101**	**3,325**	**--**	**2,376,450**

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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
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

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			
2021	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Investments	**9,878**	**-**	**-**	**9,878**	**9,878**
Murabaha receivables, net	**143,573**	**-**	**-**	**144,915**	**144,915**
Ijara receivables, net	**3,181,997**	**-**	**-**	**3,286,957**	**3,286,957**
Ijara mawsofa fi athemmah receivables, net	**83,129**	**-**	**-**	**83,386**	**83,386**
Financial liabilities:					
Negative fair value of derivatives	**4,253**	**-**	**-**	**4,253**	**4,253**

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25 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

2020	Carrying value	Fair 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

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 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 162.2 million (31 December 2020: SR 135 million).

27 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.

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27 SEGMENT INFORMATION (CONTINUED)

The Company's total assets and liabilities at 31 December 2021 and 2020 and its total operating income, expenses and net income for the years then ended are as follows:

	Retail	Corporate	Head office	Total
2021				
Income	**84,661**	**201,691**	**--**	**286,352**
Expenses	**54,401**	**108,616**	**--**	**163,017**
Segment profit	**30,260**	**93,075**	**--**	**123,335**
Total assets	**1,029,331**	**2,483,084**	**55,056**	**3,567,471**
Total liabilities	**651,353**	**1,594,440**	**130,657**	**2,376,450**
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

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

	For the year ended 31 December	
	2021	2020
Income		
Total income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah	**284,457**	278,723
Fee expenses	**(1,838)**	(2,636)
Other income / (loss)	**3,733**	(2,014)
Total income – as per operating segment note.	**286,352**	274,073
Expenses		
Finance cost	**(54,219)**	(65,100)
Depreciation	**(8,788)**	(6,418)
General and administrative expenses	**(88,238)**	(70,821)
Selling and marketing expenses	**(13,555)**	(10,912)
Impairment reversal / (charge) for credit losses, net	**1,783**	(5,428)
Total expense – as per operating segment note.	**(163,017)**	(158,679)

28 SAMA SUPPORT PROGRAMS AND INITIATIVES

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are experiencing issues due to identification of multiple new variants of this infections despite having previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

The Company continues to evaluate the current macroeconomic situation including the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio along with conducting review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The Company has also made updates within its ECL model to refine the application of the staging criteria due to SICR on affected customers to be able to differentiate and reflect appropriately in its models.

28 SAMA SUPPORT PROGRAMS AND INITIATIVES (CONTINUED)

During the year ended December 31, 2021, the Company has revised certain inputs and assumptions (including but not limited to macroeconomic factors and scenario probabilities) used for the determination of ECL.

As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected.

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 eligible (stage 1 and stage 2) Micro Small and Medium Enterprises ("MSME") as defined 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 in March 2020 and with further extensions to the program subsequently announced, the Company deferred payments on lending facilities to MSME. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow shortages. The Company implemented the payment reliefs by deferring instalments falling due from 14 March 2020 to 31 December 2021 amounting to SAR 528.94 million at no additional costs to the customer out of which SAR 334 million has been deferred during the year ended 31 December 2021 (31 December 2020: SAR 195 million).

On 31 December 2021, for these effected MSME customers, a further extension of three additional months was announced by SAMA i.e., for the instalments falling due from 1 January 2022 to 31 March 2022. As at 31 December 2021, the Company is still in progress to determine the pool of customers eligible for continued deferment of the instalments falling due from 1 January 2022 to 31 March 2022.

The accounting impact of above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses amounting to SAR 15.53 million, out of which SAR 8.46 million has been recorded during the year ended 31 December 2021 (31 December 2020: SAR 7.07 million).

During the year ended 31 December 2021, SAR 11.45 million (31 December 2020: SAR 2.73 million) has been recognized in the statement of income relating to unwinding of modification losses.

In order to compensate for the related costs that the Company incurred under the SAMA's deferred payments program, during the year 2020 and the year ended 31 December 2021, the Company received profit free deposits from SAMA amounting to SAR 498 million with varying maturities, which qualify as government grants.

Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income.

By the end of the year 2021, total income of SAR 7.97 million (31 December 2020: 13.99 million) has been recognised in the statement of income with the remaining amount deferred. Grant income amounting to SAR 7.97 million arose on the profit free deposit amounting to SAR 333 million received during the year ended 31 December 2021 (31 December 2020: SAR 498 million).

29 SUBSEQUENT EVENTS

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

30 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 19 Rajab 1443H (corresponding to 20 February 2022).