YANAL FINANCE COMPANY
(FORMERLY SAUDI ORIX LEASING COMPANY)
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020, AND
INDEPENDENT AUDITOR'S REPORT

YANAL FINANCE COMPANY
(formerly Saudi ORIX Leasing Company)
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

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Independent auditor's report to the shareholders of Yanal Finance Company) (Formerly Saudi ORIX Leasing Company), A Saudi Closed Joint Stock Company

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Yanal Finance Company (formerly Saudi ORIX Leasing Company) (the "Company") as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2020;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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 as endorsed in the Kingdom of Saudi Arabia 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.

Audit Committee are responsible for overseeing the Company's financial reporting process.

PricewaterhouseCoopers, License No. 25,
Kingdom Tower, P.O. Box 8282, Riyadh 11482, Kingdom of Saudi Arabia
T: +966 (11) 211-0400, F: +966 (11) 211-0401, www.pwc.com/middle-east

Independent auditor's report to the shareholders of Yanal Finance Company) (Formerly Saudi ORIX Leasing Company), A Saudi Closed Joint Stock Company (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

We communicate with Audit Committee 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.

PricewaterhouseCoopers

Bader I. Benmohareb
License Number 471

February 25, 2021

YANAL FINANCE COMPANY
(Formerly Saudi ORIX Leasing Company)
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2020
(All amounts in Saudi Riyals unless stated otherwise)

ASSETS	Notes	2020	2019
Non-current assets:			
Property and equipment	4	663,645	2,236,661
Intangible assets	4	238,476	260,190
Equity investments designated at FVOCI	5	892,850	892,850
Net investment in finance leases	6	451,966,235	315,478,752
Net investment in murabaha finance	7	143,560,678	96,684,073
		597,321,884	415,552,526
Current assets:			
Current maturity of net investment in finance leases	6	459,942,586	588,814,092
Current maturity of net investment in murabaha finance	7	60,100,542	42,493,236
Advances, prepayments and other receivables	8	29,061,510	54,938,278
Term deposits	9	202,000,000	-
Cash and cash equivalents	9	62,523,908	38,925,221
		813,628,546	725,170,827
TOTAL ASSETS		1,410,950,430	1,140,723,353
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	550,000,000	550,000,000
Statutory reserve	10	86,757,029	85,349,990
Retained earnings		215,364,948	239,187,449
Total equity		852,121,977	874,537,439
LIABILITIES			
Non-current liabilities:			
Long-term loans	11	262,339,144	73,184,950
Zakat and income tax	12	5,265,684	7,898,526
Employees' end of service benefits	13	19,607,328	17,428,885
		287,212,156	98,512,361
Current liabilities:			
Bank overdraft	9	-	29,085,031
Current maturity of long-term loans and lease liabilities	11	200,169,556	42,105,934
Accounts payable	14	32,736,405	49,153,206
Zakat and income tax	12	4,581,892	14,332,088
Accrued expenses and other liabilities	15	34,128,444	32,997,294
		271,616,297	167,673,553
Total liabilities		558,828,453	266,185,914
TOTAL EQUITY AND LIABILITIES		1,410,950,430	1,140,723,353
Contingencies and commitments	20		

The accompanying notes (1) through (28) form an integral part of these financial statements.

Chief Executive Officer | Director | Chief Financial Officer

YANAL FINANCE COMPANY
(Formerly Saudi ORIX Leasing Company)
(A Saudi Closed Joint Stock Company)
STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2020
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	2020	2019
REVENUE	16	**110,633,923**	108,154,618
EXPENSES			
Special commission expense	17	**(13,447,646)**	(4,629,693)
Provision for impairment on financial assets	6, 7	**(17,238,024)**	(2,457,595)
Modification loss	21	**(58,336,927)**	-
Government grant income	21	**42,505,634**	-
Salaries and employee related expenses		**(37,114,441)**	(38,400,636)
General and administrative expenses	18	**(12,074,540)**	(6,913,331)
Depreciation and amortization	4	**(1,859,562)**	(2,235,933)
Total expenses		**(97,565,506)**	(54,637,188)
Income for the year before zakat and income tax		**13,068,417**	53,517,430
Zakat expense			
- Current year	12	**(2,101,259)**	(7,468,203)
- Prior years	12	**-**	(36,818,943)
Income tax reversed / (expense)	12	**3,103,234**	(1,815,625)
Income for the year after zakat and income tax		**14,070,392**	7,414,659
Earnings per share - basic and diluted	19	**0.26**	0.13

The accompanying notes (1) through (28) form an integral part of these financial statements.

Chief Executive Officer	Director	Chief Financial Officer

YANAL FINANCE COMPANY
(Formerly Saudi ORIX Leasing Company)
(A Saudi Closed Joint Stock Company)
STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2020
(All amounts in Saudi Riyals unless stated otherwise)

	Notes	2020	2019
Income for the year after zakat and income tax		14,070,392	7,414,659
Other comprehensive income			
Items that will not be reclassified to statement of income in subsequent periods			
Actuarial gains on employees' end of service benefits	13	429,552	407,940
Items that are or maybe reclassified to statement of income in subsequent periods			
Cash flow hedges - effective portion of changes in fair value		-	(1,657,447)
Total comprehensive income for the year		14,499,944	6,165,152

The accompanying notes (1) through (28) form an integral part of these financial statements.

Chief Executive Officer | Director | Chief Financial Officer

YANAL FINANCE COMPANY
(Formerly Saudi ORIX Leasing Company)
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2020
(All amounts in Saudi Riyals unless stated otherwise)

	Share capital	Statutory reserve	Retained earnings	Cash flow hedge reserve	Total equity
Balance as at December 31, 2019	**550,000,000**	**85,349,990**	**239,187,449**	**-**	**874,537,439**
Total comprehensive income:					
Income for the year after zakat and income tax	-	-	14,070,392	-	14,070,392
Other comprehensive income	-	-	429,552	-	429,552
Transfer to statutory reserve	-	1,407,039	(1,407,039)		
Transaction with shareholders of the Company, recorded directly in shareholders' equity:					
Dividend declared (Note 27)	-	-	(36,915,406)	-	(36,915,406)
Balance as at December 31, 2020	**550,000,000**	**86,757,029**	**215,364,948**	**-**	**852,121,977**
Balance as at December 31, 2018	550,000,000	84,608,524	218,715,570	1,657,447	854,981,541
Total comprehensive income:					
Income for the year after zakat and income tax	-	-	7,414,659	-	7,414,659
Other comprehensive income	-	-	407,940	(1,657,447)	(1,249,507)
Transfer to statutory reserve	-	741,466	(741,466)	-	-
Transactions with shareholders of the Company, recorded directly in shareholders' equity:					
Dividend declared (Note 27)	-	-	(27,500,000)	-	(27,500,000)
Zakat recovered	-	-	7,135,925	-	7,135,925
Prior period income tax refund	-	-	(836,806)	-	(836,806)
Income tax recovered	-	-	3,917,108	-	3,917,108
Recoverable from Saudi shareholders for prior period zakat settlement	-	-	30,674,519	-	30,674,519
Total transactions with shareholders of the Company	-	-	13,390,746	-	13,390,746
Balance as at December 31, 2019	550,000,000	85,349,990	239,187,449	-	874,537,439

The accompanying notes (1) through (28) form an integral part of these financial statements.

Chief Executive Officer | Director | Chief Financial Officer

YANAL FINANCE COMPANY
(Formerly Saudi ORIX Leasing Company)
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2020
(All amounts in Saudi Riyals unless stated otherwise)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income for the year before zakat and income tax		13,068,417	53,517,430
Adjustments for:			
Depreciation of property and equipment	4	1,765,832	2,120,113
Amortisation of intangible assets	4	93,730	115,820
Special commission expense	17	13,447,646	4,629,693
Provision for impairment on financial assets	6, 7	17,238,024	2,457,595
Government grant net of reversal		(30,210,228)	-
Gain on disposal of property and equipment		(4,762)	-
		15,398,659	62,840,651
Changes in operating assets and liabilities:			
Net investment in finance leases and murabaha finance		(89,337,912)	5,428,976
Advances, prepayments and other receivables		6,423,065	(6,502,473)
Accounts payable		(16,416,801)	14,863,037
Accrued expenses and other liabilities		(11,164,254)	(3,532,408)
Employees' end of service benefits, net	13	2,607,995	1,421,262
Net cash (used in) / generated from operating activities		(92,489,248)	74,519,045
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in term deposits	9	(202,000,000)	-
Additions to property and equipment and intangible assets	4	(264,832)	(364,409)
Proceeds from disposal of property and equipment		4,762	-
Net cash used in investing activities		(202,260,070)	(364,409)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	11	20,000,000	201,250,000
Proceeds from profit free Saudi Central Bank (SAMA) deposit	11	374,742,269	-
Repayments of loans and profit free SAMA deposit	11	(17,781,371)	(350,137,302)
Payment of lease liability		-	(1,850,000)
Special commission and other bank charges paid		(675,591)	(5,075,907)
Income tax paid on behalf of non-Saudi shareholders	12	(1,826,762)	-
Zakat paid on behalf of Saudi shareholders	12	(10,253,255)	(28,908,767)
Dividends paid, net of zakat and income tax recovered		(16,772,254)	(16,446,967)
Net cash generated from / (used in) financing activities		347,433,036	(201,168,943)
Net increase / (decrease) in cash and cash equivalents		52,683,718	(127,014,307)
Cash and cash equivalents at the beginning of the year		9,840,190	136,854,497
Cash and cash equivalents at the end of the year	9	62,523,908	9,840,190
Supplemental non-cash information			
Recognition of lease liability upon adoption of IFRS 16		-	3,294,919
Fair value change on cash flow hedges		-	(1,657,447)

The accompanying notes (1) through (28) form an integral part of these financial statements.

Chief Executive Officer

Director

Chief Financial Officer

(All amounts are in Saudi Riyals unless stated otherwise)

1. CORPORATE INFORMATION

Yanal Finance Company (formerly Saudi ORIX Leasing Company) (the "Company") is a Saudi Closed Joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under commercial registration number 1010163957 issued in Riyadh on 21 Shawal 1421H (corresponding to January 16, 2001), non-industrial license number 99 dated 27 Safar 1421H (corresponding to May 31, 2000) issued by the Ministry of Commerce and a Finance company license number 7/A Sh/201403 dated 27 /04/1435H (corresponding to February 27, 2014) issued by the Saudi Central Bank ("SAMA"), through its five branches (2019: five branches) in the Kingdom of Saudi Arabia.

On 01 Rabi Al-Awwal 1440 (corresponding to November 10, 2018), the Company received no objection certificate from SAMA to conduct commodity murabaha business in the Kingdom of Saudi Arabia.

Effective from January 1, 2021, the name of the Company was changed from Saudi ORIX Leasing Company to Yanal Finance Company.

The Company's head office is located in Riyadh at the following address:

Yanal Finance Company (Formerly Saudi ORIX Leasing Company)
7690 Al Madhar - As Sulimaniyah
Unit No 1
Riyadh 12621 - 2692
Kingdom of Saudi Arabia

The Company has the following branches:

Branch Commercial Registration number	***Date***	***Location***
2050046083	9 Jamada Awal 1425H	Dammam
4030150057	9 Jamada Awal 1425H	Jeddah
2055013067	9 Rabi-Al-Awwal 1432H	Jubail
5855036378	9 Rabi-Al-Awwal 1432H	Khamis Mushait
4031090240	26 Rabi-Al-Thanni 1436H	Makkah Almukarama

The objective of the Company is to provide lease financing for movable and immovable assets and murabaha financing to all economic sectors in the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

The financial statements of the Company as at and for the year ended December 31, 2020 have been prepared 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 Organisation for Certified Public Accountants ("SOCPA").

The financial statements are prepared on a going concern basis under the historical cost convention, modified to include the measurement at fair value of derivative financial instruments. However, in line with IFRS requirements, employees defined benefit liabilities are recognised at the present value of future obligations using the Projected Unit Credit Method.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 New standards and interpretations not yet adopted

New accounting standards and amendments to standards and interpretations that are effective for annual periods beginning on or after January 1, 2021 and have not been applied or early adopted in preparing these financial statements. None of these standards is expected to have a significant effect on the financial statements of the Company.

Other new accounting standards and amendments to existing accounting standards, effective from January 1, 2020 do not have any significant effect on the Company's financial statements.

3.2 Significant accounting judgements, estimates and assumptions

The preparation of the financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalization.

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

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements.

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

In the process of applying the Company's accounting policies, management has made estimates and judgments which are significant to the financial statements in relation to provision for impairment on the financial assets (Note 3.8(d)).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal accounting policies adopted in the preparation of these financial statements, which are consistently applied, are set out below:

3.3 Property and equipment and intangible assets

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property and equipment is capitalised and the asset so replaced is retired from use. All other repairs and maintenance expenditure are charged to the statement of income during the period in which they are incurred.

Depreciation is charged using the straight-line method over its estimated useful life as mentioned below, after taking into account residual value.

	Years
Leasehold improvements	10
Office furniture and fixtures	5
Motor vehicles	5
Information technology equipment	4

Depreciation on additions is charged from the month the assets are available for use. No depreciation is charged in the month of disposal.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains / losses on disposal of property and equipment, if any, are taken to the statement of income in the period in which they arise.

The assets residual values, useful lives and methods are reviewed and adjusted, if appropriate, at each statement of financial position date.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intangible assets comprise of computer softwares and licenses acquired by the Company and are measured at cost less accumulated amortization. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortization is calculated over the cost of the asset and are amortized on a straight-line basis over its estimated useful life, from the date on which it is available for use. The estimated useful life of intangible assets for the current and comparative periods is four years.

3.4 Net investment in finance leases and Murabaha finance

Finance Lease

Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. Finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Gross investment in finance leases include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases. The Company takes down payments on leases with the right to set off against the residual value of leased assets and for presentation purposes, these down payments along with prepaid lease rentals are deducted from gross investment in finance leases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Murabaha finance

Murabaha is an Islamic form of financing wherein the Company, based on request from its customers, purchases specific commodities and sells them to the customers at a price equals to the company's cost plus profit, payable on deferred basis in instalments.

3.5 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimates.

3.6 Assets classified as held for sale

The Company classifies a non-current asset, if any, as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised in the statement of income for any initial or subsequent write down of the non-current asset to fair value less costs to sell. Any rental income is charged to statement of income. Subsequent gains in fair value less costs to sell are recognised to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale.

3.7 Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its loan exposure to interest rates. 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 income, except for the effective portion of cash flow hedges, which is recognised in the statement of changes in equity.

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

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been and are expected to be highly effective throughout the financial reporting periods for which they were / are designated.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments

a) Initial recognition

The Company initially recognizes financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument.

b) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income (FVOCI);
- those to be measured subsequently at fair value through statement of income (FVSI); and
- those to be measured at amortised cost.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective.

Classification and subsequent measurement of debt instruments depend on:

- The Company's business model for managing the asset; and
- The contractual cash flow characteristics of the asset.

Business model: The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVSI.

Solely payment of principal and profit (SPPP): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payment of principal and profit (the "SPPP" test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. profit (or special commission income) includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVSI.

Based on these factors, the Company classifies its debt instruments into one of the three measurement categories as described in (c) below.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Classification and subsequent measurement of the Company's equity instruments are described in (c) below.

c) Measurement

At initial recognition, the Company measures financial assets at its fair value plus or minus, in the case of a financial asset not at FVOCI, transactions costs that are directly attributable to the acquisition of the financial asset. Transactions costs of financial assets carried at fair value through statement of income (FVSI) are expensed in statement of income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent measurement of debt instruments

It depends on the Company's business model for managing the assets and the cash flow characteristics of the assets. There are three measurement categories into which the Company classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and profit are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of the hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Profit from these financial assets is calculated using the effective yield method.
- Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, profit on financial instrument (revenue) and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Profit from these financial assets is included in finance income using the effective yield method.
- Fair value through statement of income (FVSI): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVSI. A gain or loss on a debt investment that is subsequently measured at FVSI and is not part of a hedging relationship is recognised in statement of income and presented net in the statement of income within other gains/ (losses) in the period in which it arises. Income from these financial assets is included in the finance income.

Subsequent measurement of equity instruments

The Company measures all equity investments at FVSI. The Company's management has elected to present fair value gains and losses on equity investments that are not held for trading in other comprehensive income. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Currently, the Company holds only one equity investment.

There is no subsequent reclassification of fair value gains and losses to statement of income following the de-recognition of the investment and no impairment or reversal of impairment is recognised in statement of income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on derecognition of the investment.

Dividends from such investments are recognized in statement of income as other income when the Company's right to receive payments is established unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income.

d) Impairment of financial assets

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the company in accordance with the contract and all the cash flows that the company expects to receive, discounted at the original effective interest rate used in measuring the lease receivable in accordance with IFRS 16 Leases. While calculating the cash flows expected to receive, probability of default and loss given default (i.e. the magnitude of the loss if there is a default) is considered and the related assessment is based on historical overdue data adjusted by factors that are specific to the lessees and forward-looking information which includes macro-economic factors such as Saudi Gross Domestic Product (GDP) and inflation.

The measurement of expected credit losses reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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; or
- the borrower is past due more than 90 days on any material credit obligation to the Company.

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Measurement of the expected credit loss allowance

In the preparation of the financial statements, management has made certain additional assumptions in the measurement of Expected Credit Loss (ECL). Explanation of such inputs, assumptions and estimation techniques used in measuring ECL are further detailed in note 21 to these financial statements. However, in view of the current uncertainty as explained in note 21, any future change in the assumptions and key estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

Lease receivables

For investment in finance leases, "lease receivables", the Company applies the simplified approach as permitted by IFRS 9, which requires lifetime expected credit losses to be recognised from the initial recognition.

Murabaha receivables

The financial assets of the Company are categorized as follows:

1. Performing: these represent the financial assets that have not deteriorated significantly in credit quality since initial recognition or customers that have a low risk of default and a strong capacity to meet contractual cash flows.

   The Company's Murabaha receivables primarily represent corporate loans. Management believes that past due information is the most appropriate basis for assessing the increase in credit risk and based on management experience and analysis of other business, the balances which are less than 30 days past due do not result in significant increase in credit risk and are considered as performing.

   The Company measures the loss allowance for performing financial assets at an amount equal to 12-month expected credit losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime. 12-month expected credit losses are the portion of expected credit losses that results from default events on the financial assets that are possible within 12 months after the reporting date.

2. Underperforming: these represent the financial assets that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss event and is presumed if the customer is more than 30 days past due in making a contractual payment / installment.

   The Company measures the loss allowance for underperforming financial assets at an amount equal to lifetime expected credit losses i.e. expected credit losses that result from all possible default events over the life of the financial asset.

3. Non-performing: these represent financial assets that have objective evidence of impairment at the reporting date. A default on a financial asset is considered when the customer fails to make a contractual payment / installment within 90 days after they fall due.

   The Company measures the loss allowance for non-performing financial assets at an amount equal to lifetime expected credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement of Expected Credit Loss (ECL):

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant change in credit risk on an ongoing basis throughout each reporting period. The impairment model was developed considering probability of default and loss given default which were derived from historical data of the Company and are adjusted to reflect the expected future outcome which includes macroeconomic factors such as inflation and gross domestic product growth rate. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

For financial assets, a credit loss is calculated as the present value (at effective profit rate) of the difference between:
(a) The contractual cash flows that are due to the Company under the contract; and
(b) The cash flows that the Company expects to receive.

Write-offs

Financial assets are written-off only when:

- the lease or other receivable is at least three years past due, and
- there is no reasonable expectation of recovery.

Where financial assets are written-off, the Company continues to engage enforcement activities to attempt to recover the receivables due. Where recoveries are made, after write-off, are recognised as other income in the statement of income.

e) Financial liabilities - subsequent classification and measurement

All financial liabilities are subsequently measured at amortised cost using the effective yield method or FVSI. The company has not designated any financial liabilities at FVSI and it has no current intention to do so. The effective yield rate is the rate that discounts the estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

f) Derecognition of financial instruments

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income.

The Company derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in statement of income.

3.9 Employees end of service benefits

Employee termination benefits are payable as a lump sum to all employees, under the terms and conditions of Saudi Labor Laws applicable on the Company, on termination of their employment contracts. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of the Kingdom of Saudi Arabia.

The calculation of obligation is performed using the projected unit credit method to make a reliable estimate of the ultimate cost to the Company of the benefit payable to employees. Actuarial gains or losses on re-measurement of obligation are recognized immediately in the statement of other comprehensive income. Actuarial gains and losses represent changes in the present value of the obligation resulting from experience adjustments and the effects of changes in actuarial assumptions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each statement of financial position date.

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 of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

3.11 Regular way Contracts

Regular way purchases or sales of financial assets are those, the contract which requires delivery of assets within the timeframe generally established by regulation or convention in the market. All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date on which the asset is delivered to or by the Company.

3.12 Offsetting

Financial assets and liabilities are offset and are reported net in the statement of financial position when there is a legally 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. Similarly, income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

3.13 Right of use assets and lease liability

Leases are recognised as a right-of-use asset and a corresponding liability, at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities
Lease liabilities are 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, if that rate can be determined, or the Company's incremental borrowing rate.

Subsequently, the lease liabilities are measured at amortised cost using the effective interest rate method. They are re-measured when there is a change in future lease payments arising from a change in rate, or if Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liabilities are re-measured in this way, a corresponding income adjustment is made to the carrying amount of the right-of-use asset, or is recorded in statement of income if the carrying amount of right-of-use asset reduced to zero.

Right-of-use assets
Right-of-use assets are initially measured at cost, comprising the following:
- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Refundable security deposits are not included in the initial measurement of a right-of-use asset. However, the difference between the nominal amount of the refundable security deposits and its fair value at the commencement of the lease represent, an additional lease payment which is prepaid and accordingly added to the initial carrying amount of the right-of-use asset and released to the statement of income over the lease term as part of the depreciation of those assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In addition, the right-to-use assets is periodically reduced by impairment losses, if any, and adjusted for certain re-measurement of lease liabilities.

Lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Short-term and low value leases
Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office equipment and furniture.

3.14 Zakat and income tax

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

Zakat

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

Income tax

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

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

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made.

Deferred income tax

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

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

All payments of zakat and income tax made on behalf of the shareholders are deducted from the first available dividends.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks including bank overdrafts and investments with original maturity of less than three months from the contract date.

3.16 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements are presented in Saudi Arabian Riyals ("SR") which is the Company's functional and presentation currency. All financial information presented in Saudi Arabian Riyals has been rounded to the nearest Riyal, unless otherwise mentioned.

3.17 Foreign currency translation

Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates of the respective transactions. At statement of financial position date, monetary assets and liabilities in foreign currencies are translated to Saudi Arabian Riyals at the prevailing exchange rates. Gains and losses resulting from changes in exchange rates are recognised as income or expense. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction are not retranslated at statement of financial position date.

3.18 Proposed dividend and transfer between reserves

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

3.19 Revenue recognition-finance leases and murabaha finance

Finance lease and murabaha finance income are recognised using the effective yield method. The effective yield is the rate that exactly discounts the estimated future cash flows through the expected life (or where appropriate, a short period) of the financial asset or liability to its carrying amount.

Service fees charged in respect of processing and other services are recognised as income as the services are rendered.

3.20 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of special commission expense and other costs that the Company incurs in connection with the borrowing of funds.

3.21 Accounting policy related to government grants

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 profit is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of profit is measured as the difference between the initial fair 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 income on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants is intended to compensate.

(All amounts are in Saudi Riyals unless stated otherwise)

4 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Right of use assets	Leasehold improvements	Office furniture and fixtures	Motor vehicles	Information technology equipment	Total
Cost:						
Balance as at January 1, 2020	**3,294,919**	**1,519,257**	**2,277,248**	**452,250**	**5,042,774**	**12,586,448**
Additions during the year	-	-	-	-	**192,816**	**192,816**
Disposals during the year	-	-	-	**(50,400)**	-	**(50,400)**
Balance as at December 31, 2020	**3,294,919**	**1,519,257**	**2,277,248**	**401,850**	**5,235,590**	**12,728,864**
Accumulated depreciation:						
Balance as at January 1, 2020	**1,797,228**	**1,203,352**	**2,223,390**	**403,204**	**4,722,613**	**10,349,787**
Charge for the year	**1,497,691**	**68,209**	**27,043**	**18,960**	**153,929**	**1,765,832**
Disposals for the year	-	-	-	**(50,400)**	-	**(50,400)**
Balance as at December 31, 2020	**3,294,919**	**1,271,561**	**2,250,433**	**371,764**	**4,876,542**	**12,065,219**
Net book value:						
As at December 31, 2020,	**-**	**247,696**	**26,815**	**30,086**	**359,048**	**663,645**
Cost:						
Balance as at January 1, 2019	-	1,518,257	2,259,584	404,750	4,758,059	8,940,650
IFRS 16 adoption	3,294,919	-	-	-	-	3,294,919
	3,294,919	1,518,257	2,259,584	404,750	4,758,059	12,235,569
Additions during the year	-	1,000	17,664	47,500	284,715	350,879
Balance as at December 31, 2019	3,294,919	1,519,257	2,277,248	452,250	5,042,774	12,586,448
Accumulated depreciation:						
Balance as at January 1, 2019	-	1,134,967	2,170,901	355,683	4,568,123	8,229,674
Charge for the year	1,797,228	68,385	52,489	47,521	154,490	2,120,113
Balance as at December 31, 2019	1,797,228	1,203,352	2,223,390	403,204	4,722,613	10,349,787
Net book value:						
As at December 31, 2019,	1,497,691	315,905	53,858	49,046	320,161	2,236,661

The Company also holds computer software and licenses with a cost amounting to SR 1,632,677 (2019: SR 1,560,661) and net book value amounting to SR 238,476 (2019: SR 260,190). Amortization charge for the year amounts to SR 93,730 (2019: SR 115,820).

5 EQUITY INVESTMENT DESIGNATED AT FVOCI

The Company made an investment amounting to SR 892,850 for 89,285 shares at SR 10 each share representing 2.3% ownership in the share capital of "Saudi Leasing For Contract Registration Company". The Registration Company has been formed for registration of contracts relating to financial leases, amendments, registration and transfer of title deeds of the assets under the finance leases.

Equity investment designated at fair value is classified under level 3 of the fair value hierarchy.

(All amounts are in Saudi Riyals unless stated otherwise)

6 NET INVESTMENT IN FINANCE LEASES

6.1 Reconciliation between gross and net investment in finance leases are as follows:

	Note	2020	2019
Lease receivables		**1,275,719,150**	1,320,288,413
Residual value		**624,157,280**	727,632,292
Gross investment in finance leases	6.1.1 and 6.2	**1,899,876,430**	2,047,920,705
Non-refundable security deposits		**(617,105,213)**	(719,987,975)
Prepaid lease rentals		**(56,201,514)**	(55,418,187)
Net receivables		**1,226,569,703**	1,272,514,543
Unearned lease finance income		**(151,028,776)**	(172,343,386)
Sub-total	6.2	**1,075,540,927**	1,100,171,157
Modification loss		**(50,834,797)**	-
Income on modified finance lease		**13,825,982**	-
Net investment in finance leases	6.1.2	**1,038,532,112**	1,100,171,157
Provision for impairment	6.3	**(126,623,291)**	(195,878,313)
		911,908,821	904,292,844
Current maturity		**(459,942,586)**	(588,814,092)
		451,966,235	315,478,752

6.1.1 Decline in lease receivable is due to regular maturity of lease transactions and early termination of some of the contracts. Further details are disclosed in note 7.1.1.

6.1.2 Net investment in finance leases include SR 535 million in respect of deferred lease contracts as of December 31, 2020 (December 31, 2019: Nil) against which provision for impairment is SR 1.8 million (December 31, 2019: Nil) as the majority of exposure was classified in Stage 1

6.2 The maturity of the gross investment in finance leases (i.e. minimum lease payments ("MLPs") and net investment in finance leases (i.e. present value of MLPs) is as follows:

	2020		2019	
	MLPs	**PV of MLPs**	**MLPs**	**PV of MLPs**
Not later than one year	**696,451,458**	**459,942,586**	988,851,158	588,814,092
Later than one year and less than five years	**1,167,644,572**	**609,157,816**	1,058,348,508	510,644,404
Later than five years	**35,780,400**	**6,440,525**	721,039	712,661
	1,899,876,430	**1,075,540,927**	2,047,920,705	1,100,171,157

6.3 The movement in the provision for impairment of lease receivables was as follows:

	Note	2020	2019
Balance at the beginning of the year		**195,878,313**	221,118,111
Provision for the year, net		**16,668,287**	2,426,292
Bad debts written-off	6.3.1	**(85,923,309)**	(27,666,090)
Balance at the end of the year	6.3.2	**126,623,291**	195,878,313

6.3.1 Amounts written off still subject to enforcement activity

As of December 31, 2020, the bad debt amount written off are still subject to enforcement activity amounts to SR 96.4 million (2019: SR 30.2 million).

(All amounts are in Saudi Riyals unless stated otherwise)

6. NET INVESTMENT IN FINANCE LEASES (continued)

6.3.2 Portfolio provision analysis for investment in finance leases

December 31, 2020	Net investment in finance lease	Provision for impairment	Expected Loss rates
Not yet due	913,799,394	3,143,549	0.0%-0.41%
1-90 days	25,853,030	174,025	0.42%-2.10%
91-180 days	149,854	3,430	2.20%-7.80%
181-365 days	407,148	187,583	7.90%-47.94%
366 days – 730 days	23,905,242	13,002,092	47.95%-95.78%
Above 730 days and Specific accounts*	111,426,259	110,112,612	77.87%-100%
	1,075,540,927	126,623,291	

December 31, 2019	Net investment in finance lease	Provision for impairment	Expected Loss rates
Not yet due	692,836,854	632,731	0.0% - 0.80%
1-90 days	178,431,844	3,237,127	0.81% - 1.20%
91-180 days	12,280,615	445,523	1.21% - 5.66%
181-365 days	22,304,038	1,672,195	5.67% - 65.49%
366 days – 730 days	12,570,545	12,365,957	65.50% - 98.58%
Above 730 days and Specific accounts*	181,747,261	177,524,780	56.50% - 100%
	1,100,171,157	195,878,313	

* Includes provision for impairment against specific accounts where net investment in finance lease of SR 51 million is fully provided (December 31, 2019: SR 89.5 million).

6.4 Modification loss was recognised in respect of deferral of cash flows under Deferred Payment Program announced by SAMA and Small and Medium Enterprises General Authority ("Monsha'at"). Against the deferral, the Company received profit free deposits from SAMA and loan moratorium from Monsha'at. Government grant benefit was recognized in the financial statements as a difference in the book value and present value of repayments as disclosed in note 21 to the financial statements.

6.5 Generating the term structure of Probability of Default (PD)

Loss rates are calculated using a 'flowrate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. PD term structures are based on the default probability calculated on forward flow rates, average of past twenty-four months, adjusted by the outlook of the economy. The economic factor relating to GDP has been revised during the period considering the COVID-19 impact as disclosed in note 21 to the financial statements.

6.6 Sensitivity Analysis

Assuming all other factors remain constant, the sensitivity analysis of the expected credit loss allowance of finance lease as on December 31, 2020, is as follows:

	Increase in ECL as on December 31, 2020
Use of maximum of forward flow rates instead of average flow rates	8,670,511
Increase in economic factor by 10%	3,218,824
Increase in loss given default by 10%	770,397

(All amounts are in Saudi Riyals unless stated otherwise)

7 NET INVESTMENT IN MURABAHA FINANCE

7.1 Reconciliation between net murabaha finance is as follows:

	Note	2020	2019
Murabaha finance receivables	7.1.1	**240,141,135**	164,109,716
Unearned murabaha finance income		**(30,412,585)**	(24,870,993)
Sub-total		**209,728,550**	139,238,723
Modification loss		**(7,502,130)**	-
Income on modified murabaha finance		**2,065,951**	-
Net investment in murabaha finance		**204,292,371**	139,238,723
Provision for impairment	7.2	**(631,151)**	(61,414)
		203,661,220	139,177,309
Current maturity		**(60,100,542)**	(42,493,236)
		143,560,678	96,684,073

7.1.1 The Company started offering finance against real estate mortgage toward the end of year 2018 as an alternate mode of finance for commercial real estate leases. Increase is mainly due to the new financing originations.

7.1.2 Net investment in murabaha finance include SR 83.4 million in respect of deferred contracts as on December 31, 2020 (December 31, 2019: Nil) against which the provision for impairment is SR 0.12 million (December 31, 2019: Nil).

7.2 The movement in the provision for impairment of murabaha receivables was as follows:

	2020	2019
Balance at the beginning of the year	**61,414**	30,111
Provision for the year, net	**569,737**	31,303
Balance at the end of the year	**631,151**	61,414

7.3 Stage wise analysis of murabaha finance receivables and provision is as follow:

	Performing	Under-performing	Non-performing	Total
	(Stage 1)	(Stage 2)	(Stage 3)	
December 31, 2020				
Net investment in murabaha finance	**208,760,781**	**-**	**967,769**	**209,728,550**
Provision for impairment	**(345,630)**	**-**	**(285,521)**	**(631,151)**
Net receivables	**208,415,151**	**-**	**682,248**	**209,097,399**
December 31, 2019				
Net investment in murabaha finance	138,278,416	960,307	-	139,238,723
Provision for impairment	(54,716)	(6,698)	-	(61,414)
Net receivables	138,223,700	953,609	-	139,177,309

7.4 Modification loss was recognised, and netted off against government grant, in these financial statements. (Refer note 6.4 for details).

7.5 Generating the term structure of Probability of Default (PD)

Loss rates are calculated using a 'flowrate' method as disclosed in note 6.5 in these financial statements.

(All amounts are in Saudi Riyals unless stated otherwise)

7. NET INVESTMENT IN MURABAHA FINANCE (continued)

7.6 Sensitivity Analysis

Assuming all other factors remain constant, the sensitivity analysis of the expected credit loss allowance on murabaha finance as on December 31, 2020 is as follows:

	Increase in ECL as on December 31, 2020
Use of maximum of forward flow rates instead of average flow rates	493,383
Increase in economic factor by 10%	113,168
Increase in loss given default by 10%	24,198

8 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2020	2019
Receivable from Saudi shareholders for prior period zakat settlement		**10,531,367**	30,674,519
Advance to suppliers		**7,886,190**	16,551,047
Prepaid expenses		**2,789,431**	2,786,981
Loans and advances to staff		**1,841,469**	1,929,647
Deferred VAT		**1,805,943**	1,249,736
VAT refund		**983,812**	812,087
Other	8.1	**3,223,298**	934,261
		29,061,510	54,938,278

8.1 This includes income tax refundable from GZAT amounting to SR 698,954 (2019: Nil)

9 CASH AT BANK AND IN HAND

	Note	2020	2019
CASH AND CASH EQUIVALENTS			
Cash at banks		**13,511,770**	38,904,186
Cash in hand		**12,138**	21,035
Term deposits of less than three months maturity		**49,000,000**	-
		62,523,908	38,925,221
Bank overdraft		**-**	(29,085,031)
Cash and cash equivalents at the end of the year		**62,523,908**	9,840,190
TERM DEPOSITS			
Term deposits of more than three months maturity	9.1	**202,000,000**	-
		202,000,000	-

9.1 These term deposits are held with local banks with original maturities range from 91 to 180 days at contract date.

10 SHARE CAPITAL AND STATUTORY RESERVE

As at December 31, 2020, the authorised, issued and fully paid-up share capital of the Company was SR 550 million divided into 55 million shares (December 31, 2019: 55 million shares) with a nominal value of SR 10 each.

The pattern of shareholding as of December 31, is as follows:

Shareholders	2020	2019
The Saudi Investment Bank ("SAIB")	**209,000,000**	209,000,000
Trade Development and Investment Group Limited	**176,000,000**	176,000,000
ORIX Corporation - Japan	**151,250,000**	151,250,000
ORIX Leasing Pakistan Limited - Pakistan	**13,750,000**	13,750,000
	550,000,000	550,000,000

(All amounts are in Saudi Riyals unless stated otherwise)

10. SHARE CAPITAL AND STATUTORY RESERVE (continued)

10.1 The portion of Saudi to non-Saudi shareholders (including non-Saudi shareholders in SAIB) is 70% to 30% (2019: 70% to 30%) as of the reporting date.

10.2 As required by the Regulations for Companies and the Company's By-laws, 10% of the net income after zakat and income tax for the year is transferred to a statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% threshold of the share capital. The reserve is not available for distribution.

11 LONG-TERM LOANS AND LEASE LIABILITIES

	Note	2020	2019
Long-term loans	11.1	**126,242,438**	114,112,698
Profit-free deposits payable to SAMA	21	**364,831,158**	-
Government Grant	21	**(42,505,634)**	-
Total loans and deposits, net of grant	11.3	**448,567,962**	114,112,698
Accrued special commission expense	11.4	**12,990,130**	113,723
		461,558,092	114,226,421
Lease liability		**1,079,167**	1,064,463
		462,637,259	115,290,884
Less: unamortised fee		**(128,559)**	-
		462,508,700	115,290,884
Less: current maturity		**(200,169,556)**	(42,105,934)
Non-current portion for long-term loans		**262,339,144**	73,184,950

11.1 Long term loans were obtained from Social Development Bank ("SDB") in relation to Small and Medium Enterprises General Authority ("Monsha'at") Program for financing of small and medium enterprises, which are payable by January 2024, including the new loan obtained during the year.

11.2 The Company has revolving and non-revolving loan facilities from commercial banks amounted to SR 231.3 million (December 31, 2019: SR 521.3 million) which stood unutilized as at December 31, 2020 and December 31, 2019.

11.3 The schedule for movement of long-term loans and SAMA profit-free SAMA deposits was as follows:

	Long-term loans and SAMA deposits	Special commission	Total
Payable as at January 1, 2020	**114,112,698**	**113,723**	**114,226,421**
Proceeds during the year	**394,742,269**	**-**	**394,742,269**
Charge during the year	**-**	**13,282,846**	**13,282,846**
Government grant	**(42,505,634)**	**-**	**(42,505,634)**
Payments during the year	**(17,781,371)**	**(406,439)**	**(18,187,810)**
Payable as at December 31, 2020	**448,567,962**	**12,990,130**	**461,558,092**

	Long-term loans and SAMA deposits	Special commission	Total
Payable as at January 1, 2019	263,000,000	779,719	263,779,719
Proceeds during the year	201,250,000	-	201,250,000
Charge during the year	-	3,805,222	3,805,222
Payments during the year	(350,137,302)	(4,471,218)	(354,608,520)
Payable as at December 31, 2019,	114,112,698	113,723	114,226,421

11.4 Special commission expense includes an amount of SR 12.3 million (December 31, 2019: Nil) commission costs on SAMA profit-free deposit and deferred Monsha'at loan.

(All amounts are in Saudi Riyals unless stated otherwise)

12 ZAKAT AND INCOME TAX

a) Zakat

Movement in provision:	2020	2019
Balance as at January 1	**17,999,572**	2,621,193
Provided during the year	**2,101,259**	7,468,203
Zakat provision related to prior periods	**-**	36,818,943
Payment during the year	**(10,253,255)**	(28,908,767)
Balance as at December 31	**9,847,576**	17,999,572

b) Income tax

Movement in provision:	2020	2019
Balance as at January 1	**4,231,042**	1,578,611
Reversal / provided during the year	**(3,103,234)**	1,815,625
Tax refund adjustment for prior period	**-**	836,806
Payment during the year	**(1,826,762)**	-
(Reversal) / balance as at December 31	**(698,954)**	4,231,042

12.1 Status of assessments

During 2019, the Company received and signed off a settlement agreement with GAZT for the financial years ended December 31, 2014 through 2018. As per the agreement, the Company is required to pay zakat of SR 16,455,263 (which was calculated based on 10% of accounting profit) payable in instalments over a period of five years from 2019 to 2023, this relates to years 2014 to 2017 and for the financial year 2018 an amount of SR 3,844,872 as per the Ministerial Resolution No. 1260. Below is the repayment schedules as on December 31, 2020:

Due dates	2020	2019
December 1, 2020	**-**	2,632,842
December 1, 2021	**2,632,842**	2,632,842
December 1, 2022	**2,632,842**	2,632,842
December 1, 2023	**2,632,842**	2,632,842
Total	**7,898,526**	10,531,368

During 2019, the Company received a demand letter to settle SR 3 million for income tax liability and delay fines against the liability for the financial year 2017. As per the tax declaration for 2017, the tax liability was adjusted against the tax refund carried forward from 2016, therefore, the Company has contested against the demand raised by GAZT and awaiting response.

13 EMPLOYEES' END OF SERVICE BENEFITS

	2020	2019
Balance as at January 1	**17,428,885**	16,415,563
Provided during the year - service cost	**2,732,492**	2,094,071
Provided during the year - interest cost	**610,011**	656,623
	3,342,503	2,750,694
Paid during the year	**(734,508)**	(1,329,432)
Actuarial gains through OCI	**(429,552)**	(407,940)
Balance as at December 31	**19,607,328**	17,428,885

13.1 Principal actuarial assumptions at the reporting date are as follows:

	2020	2019
Discount rate	**3.5%**	4.0%
Salary increment	**2.5%**	2.5%
Retirement age	**60**	60

(All amounts are in Saudi Riyals unless stated otherwise)

13. EMPLOYEES' END OF SERVICE BENEFITS (continued)

13.2 Sensitivity of the actuarial assumptions

A change of 1% in discount rate and salary increment would have increased or decreased the employees' end of service benefits by SR 0.64 million and 0.83 million respectively (2019: SR 0.64 million and 0.77 million respectively).

14 ACCOUNTS PAYABLE

These represent non-interest-bearing payables against purchase of assets leased by the Company and against murabaha finance. Generally, the average credit period on purchases of assets from suppliers is one month.

15 ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2020	2019
Proposed lease related payables	15.1	**8,809,946**	12,126,226
Employee related payables		**4,647,766**	6,338,114
Leased assets insurance claims to be settled		**3,819,861**	3,639,677
Leased assets insurance premium payable		**5,174,139**	5,372,815
Legal and professional charges	15.2	**5,497,261**	457,920
Charity payable		**3,730,026**	3,195,892
Other		**2,449,445**	1,866,650
		34,128,444	32,997,294

15.1 These include down payments and front-end fees in respect of proposed lease contracts and other amounts received for related services of executed and unexecuted contracts.

15.2 These include provision amounting to SR 5.12 million against a potential claim from the leased asset supplier which is under hearing with court and the provision is made based on assessment of the case by the Company's Legal Department.

16 REVENUE

	Note	2020	2019
Finance lease	16.1	**85,974,809**	92,530,326
Murabaha finance	16.1	**15,406,034**	9,878,545
		101,380,843	102,408,871
Other income	16.2	**9,253,080**	5,745,747
		110,633,923	108,154,618

16.1 Finance lease income is stated net of insurance cost and it includes reversal of SR 13,825,982 and SR 2,065,951 against modification loss on finance leases and murabaha finance contracts, respectively.

16.2 Other income mainly includes front-end fees, other contract related fees and income earned on short-term time deposits.

17 SPECIAL COMMISSION EXPENSE

	Note	2020	2019
Special commission expense on:			
Long-term loans	11.4	**13,282,846**	2,928,799
Short-term loan		**-**	876,423
		13,282,846	3,805,222
Bank overdraft commission		**70,121**	300,955
Interest expense on right-of-use asset		**14,704**	82,044
		13,367,671	4,188,221
Amortisation of transaction costs and bank charges		**79,975**	441,472
		13,447,646	4,629,693

(All amounts are in Saudi Riyals unless stated otherwise)

18 GENERAL AND ADMINISTRATIVE EXPENSES

		2020	2019
License, legal and professional charges	18.1	**7,639,062**	4,345,052
Communication expenses		**899,375**	989,775
Insurance of owned assets		**272,065**	278,073
Rent, office repairs and maintenance expenses, net		**2,037,642**	7,295
Travelling and transportation		**119,204**	335,689
Printing and stationery		**230,034**	210,720
Other		**877,158**	746,727
		12,074,540	6,913,331

18.1 This includes a provision for legal claim amounting to SR 5 million (2019: Nil) for a potential contingent liability as disclosed in note 15.2 of these financial statements.

19 BASIC AND DILUTED EARNINGS PER SHARE

The basic and diluted earnings per share is calculated by dividing the income for the year attributable to the shareholders by weighted average number of shares (55,000,000) at the end of the year.

20 CONTINGENCIES AND COMMITMENTS

	2020	2019
Finance lease and murabaha contracts not yet executed	**20,598,548**	10,890,276
Lease commitments for office premises - 2 years	**-**	3,700,000
Bank guarantees issued on behalf of the Company	**2,000,000**	2,000,000

21 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL"), SAMA SUPPORT PROGRAMS AND INITIATIVES

The prevailing economic conditions due to COVID-19 pandemic do require the Company to continue to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These primarily revolve around either adjusting macroeconomic factors used by the Company in the estimation of ECL. As the situation continues to be fluid, the management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. Accordingly, management's ECL assessment includes macroeconomic analysis. The Company has therefore recognised overlays of SR 5.2 million as at December 31, 2020. The Company will continue to reassess as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

SAMA programs and initiatives launched

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

- Deferred payments program; and
- Funding for lending program.

As part of the deferred payments program launched by SAMA, the Company was required to defer repayments for a total of nine months (original deferment for six months was followed on by a further extension of three months) on lending and leasing facilities to eligible MSMEs. On November 29, 2020, SAMA further extended the deferred payment program until March 31, 2021. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company effected the payment reliefs for deferral and its extensions by extending the tenure of the finance facilities with no additional costs to the customers. The accounting impact of changes in terms of the leasing facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement.

The Company has received SR 374.7 million as profit-free deposit in three tranches from SAMA during the year ended December 31, 2020, with varying maturities, and based on the communication with SAMA, the management had determined that the deposits are primarily for the compensation of 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 accounting requirements for government grant. This resulted in recognition of grant income amounting to SR 30.6 million, based on certain judgements exercised by the management in the recognition and measurement of this grant income. During the year ended December 31, 2020, SR 8.3 million has been charged to the statement of income relating to unwinding of the day 1 income.

(All amounts are in Saudi Riyals unless stated otherwise)

21. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL"), SAMA SUPPORT PROGRAMS AND INITIATIVES (continued)

Monsha'at – Indirect Lending Initiative (which in substance part of the SAMA program and initiatives launched)

In line with Government's initiatives to support MSMEs during the pandemic, Monsha'at announced a 12-month moratorium of loan instalments due from MSMEs. The Company has effected the payment reliefs by extending the tenure of the finance facilities from March 2020 for a period of one year, with no additional costs to the customers. The accounting impact of changes in terms of the finance lease and murabaha contracts has been assessed and is treated as per the requirements of IFRS 9 as modification in terms of arrangement.

	1st Deferral*	2nd Deferral	3rd Deferral	Total
Net investment in finance lease and murabaha finance deferred (SR)	637,792,381	-	-	637,792,381
Modification loss (SR)	(29,668,764)	(14,952,781)	(13,715,382)	(58,336,927)
	608,123,617	(14,952,781)	(13,715,382)	579,455,454
Government grant				
Government grant income (SR)	31,392,437	4,905,832	6,207,365	42,505,634
Modification loss net of Grant	1,723,673	(10,046,949)	(7,508,017)	(15,831,293)

* This includes deferment on net investment in finance lease and murabaha finance relating to SAMA Deferred Payment Program and Monsha'at Indirect Lending Initiative for a period of six months and one year respectively.

22 FINANCIAL RISK MANAGEMENT

Risk is inherent in the Company's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability. The Company's activities are exposed to a variety of financial risks which mainly include market risk, credit risk and liquidity risk.

22.1 Risk management structure

Board of Directors
The Board of Directors is responsible for establishing the Company's policies, including risk management framework, and to review the performance of the Company to ensure compliance with these policies.

Credit and risk management committee
The credit and risk management committee are appointed by the Board of Directors. The credit and risk management committee assist the Board in reviewing overall risks which the Company might face, evaluate and review operational and non-operational risks and decide on mitigating factors related therewith.

Audit Committee
The Audit Committee is appointed by the Board of Directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof and the reliability of the internal controls of the Company.

Internal audit
All key operational, financial and risk management processes are audited by the Internal Audit. Internal audit examines the adequacy of the relevant policies and procedures, the Company's compliance with the internal policies and regulatory guidelines. Internal audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

The risks faced by the Company and the way these risks are mitigated by management are summarized below.

22.2 Market risk
Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Market risk comprises of three types of risk: currency risk, special commission rate risk and other price risk.

22. FINANCIAL RISK MANAGEMENT (continued)

22.2.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried in Saudi Riyal. The Company incurs currency risk on borrowing in foreign currency that is entered in a currency other than Saudi Riyal. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations as the majority of the monetary assets and liabilities are in Saudi Riyals or currencies which are pegged to the Saudi Riyal and consequently the Company does not hedge its foreign currency exposure.

The Company has no foreign currency loan at reporting date, and hence there is no currency risk related to loans at reporting date.

22.2.2 Special commission rate risk

Special commission rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market special commission rates. The Company's exposure to the risk of changes in market special commission rates relates primarily to the Company's long-term debt obligations with floating special commission rates.

The Company did not have any variable rate financial instruments as of the year end subject to special commission rate risk.

22.2.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from special commission rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or it's issuer, or factors affecting all similar financial instruments traded in the market. The Company does not have any financial instruments which are subject to other price risk.

22.3 Credit risk

Credit risk 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.

Out of the total assets of SR 1,411 million (2019: SR 1,141 million), the assets which were subject to credit risk of financial assets amounted to SR 1,333 million (2019: SR 1,083 million). The management analyze the credit risk in the following categories:

	2020	2019
Net investment in finance leases	**911,908,821**	904,292,844
Net investment in murabaha finance	**203,661,220**	139,177,309
Advances, prepayments and other receivables	**2,058,184**	746,788
Bank balances and term deposits	**215,511,770**	38,904,186
	1,333,139,995	1,083,121,127

22.3.1 Net investment in finance leases and murabaha finance

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

The Company also follows a credit classification mechanism, primarily driven by days-delinquency as a tool to manage the quality of credit risk of the lease portfolio. Lease receivables which are overdue for more than 6 months and where future cash flows are estimated to differ, are graded into four sub-categories according to Company's internal rating system i.e. Overdue/Watch, Substandard, Doubtful and Loss.

The portfolio that is neither past due nor impaired has satisfactory history of repayment, where applicable. As at statement of financial position date, the Company has adequate collaterals to cover the overall credit risk exposure after making an impairment provision.

The assessment of credit risk of finance leases and murabaha finance also requires further estimations of credit risk using ECL which is derived by PD, EAD and LGD.

(All amounts are in Saudi Riyals unless stated otherwise)

22. FINANCIAL RISK MANAGEMENT (continued)

Generating the term structure of PD
Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. PD term structures are based on the default probability calculated on forward flow rates, maximum of past thirty-six months, adjusted by the outlook of the economy.

Significant increase in credit risk
In determining whether credit risk has increased significantly since initial recognition, the Company uses its quantitative changes in PDs, delinquency status of accounts and, where possible, relevant historical experience. Based on instalment collection history, the management believes that the significant increase in credit risk arise only when the instalment is past due for more than 60 days.

Measurement of ECL
The Company measures an ECL at an account level considering the EAD, PD, LGD and discount rate. PD estimates are estimates at a certain date, based on the term structures as provided above. For LGD estimates, the Company use present value of recoveries for loss accounts adjusted by the forward-looking information. 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 finance lease and murabaha finance is its gross carrying amount. For discounting the Company has used each contract's effective interest rate.

The Company's management believes that adequate provision has been made, where required to address the credit risk. Moreover, the Company in the ordinary course of providing finance lease and murabaha receivables are subject to additional personal guarantees for security to mitigate credit risk associated with finance lease and murabaha finance. For additional details, relating to finance lease and murabaha finance and related risk refer note 3.8, note 6 and note 7 to these financial statements.

Concentration risk

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

The Company manages its credit risk exposure through diversification of leasing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. An analysis by class of business of the Company's net investment in finance leases and murabaha finance is given below:

	2020		2019	
	SR	%	SR	%
Manufacturing	**438,446,937**	**34.11**	431,194,083	34.79
Construction and contracting	**119,227,710**	**9.28**	132,602,631	10.70
Services	**551,914,702**	**42.94**	459,417,037	37.07
Trading	**174,784,014**	**13.60**	213,879,738	17.26
Other	**896,114**	**0.07**	2,316,391	0.18
	1,285,269,477	**100**	1,239,409,880	100

Collateral held as security and other credit enhancements

The credit risks on gross amounts due in relation to the investment in finance leases and murabaha financing is mitigated by the retention of title on leased assets. Further, the Company has obtained bank guarantee from some of its customers amounting to SR 95.1 million as at December 31, 2020 (December 31, 2019: SR 84.9 million).

22.3.2 Bank balances, term deposits and other receivables

The Company believes that it has a low credit risk on these financial assets and the loss allowance would not be material for the Company. The Bank balances are held with a bank having good credit ratings. Hence, currently the Company is not exposed to any significant credit risk. Other receivables are not significant and not exposed to significant credit risk.

(All amounts are in Saudi Riyals unless stated otherwise)

22. FINANCIAL RISK MANAGEMENT (continued)

22.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company will be required to pay its liabilities earlier than expected or will face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The contractual maturities of liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Company's availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained. The table below summarizes the maturity profile of the Company's liabilities based on contractual undiscounted cash flows:

	Within 3 months	4 to 12 months	2 to 5 years	No fixed maturity	Total
December 31, 2020					
Accounts payable	**32,736,405**	-	-	-	**32,736,405**
Accrued expenses and other liabilities	**34,128,444**	-	-	-	**34,128,444**
Zakat and income tax	**62,619**	**4,519,273**	**5,265,684**	-	**9,847,576**
Long-term loans and lease liabilities	**29,349,688**	**191,526,854**	**273,061,036**	-	**493,937,578**
Employees' end of service benefits	-	-	-	**19,607,328**	**19,607,328**
	96,277,156	**196,046,127**	**278,326,720**	**19,607,328**	**590,257,331**
December 31, 2019					
Accounts payable	49,153,206	-	-	-	49,153,206
Accrued expenses and other liabilities	32,997,294	-	-	-	32,997,294
Zakat and income tax	-	14,332,088	7,898,526	-	22,230,614
Long-term loans and lease liabilities	36,759,733	34,536,159	74,046,651	-	145,342,543
Employees' end of service benefits	-	-	-	17,428,885	17,428,885
	118,910,233	48,868,247	81,945,177	17,428,885	267,152,542

23 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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 fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

Valuation techniques
When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial assets and financial liabilities are measured at amortized cost except derivative financial instruments. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values. The Company did not have any derivative financial instruments which falls under level 2 in the fair value hierarchy as at December 31, 2020 (2019: Nil).

(All amounts are in Saudi Riyals unless stated otherwise)

24 FINANCIAL INSTRUMENTS

In accordance with the requirement of IFRS 9, all financial assets and liabilities of the Company are classified and measured at amortised cost, except for derivative financial instrument which are measured at fair value, the breakdown of those were as follows:

	2020	2019
Financial assets – at amortized cost		
Net investment in finance leases	**1,038,532,112**	1,100,171,157
Net investment in murabaha finance	**209,728,550**	139,238,723
Financial liabilities – at amortized cost		
Long term loans and lease liabilities	**462,508,700**	115,290,884
Accounts payable	**32,736,405**	49,153,206
Accrued expenses and other liabilities	**34,128,444**	32,997,294

25 CAPITAL RISK MANAGEMENT

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain optimal capital structure to reduce the cost of capital. The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to its shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2020, and 2019. At statement of financial position date, gearing ratio analysis was as follows:

	2020	2019
Equity	**852,121,977**	874,537,439
Liabilities	**558,828,453**	266,185,914
Total capital structure	**1,410,950,430**	1,140,723,353
Gearing ratio	**39.61%**	23.33%

(All amounts are in Saudi Riyals unless stated otherwise)

26 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Company transacts business with related parties, which are related to its shareholders. The Company is provided technical assistance from ORIX Corporation, Japan and ORIX Leasing Pakistan Limited at no cost under an arrangement. Significant related party transactions and balances are as follows:

Transactions:	2020	2019
The Saudi Investment Bank - *shareholder*		
Dividend paid – net of zakat and tax	**3,368,035**	6,284,578
Special commission and other bank charges paid	**94,288**	156,930
Rent and premises related payment	-	2,350,000
Lease participation – payments*	**1,221,538**	44,959,973
Lease participation – management fee and others *	**91,522**	541,234
Trade Development and Investment Group, KSA - *shareholder*		
Dividend paid – net of zakat	-	5,281,455
ORIX Corporation, Japan – *shareholder*		
Dividend paid – net of tax	**12,214,401**	4,303,992
ORIX Leasing Pakistan Limited - *shareholder*		
Dividend paid – net of tax	**1,189,818**	391,272
The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company, KSA- *affiliate*		
Premium for insurance and other related payments-net	**8,848,640**	5,019,878
Amlak International for Real Estate Development and Finance Company, KSA – *affiliate*		
Rent and premises related income on subletting to an affiliate	**132,653**	1,591,837
Key Management Personnel		
Salaries and other short-term employee benefits	**8,876,852**	8,300,196
End of service benefits	**620,284**	766,763
Directors' meeting attendance fee	**900,000**	900,000
Balances:		
The Saudi Investment Bank- *shareholder*		
Term and cash deposits		-
Current accounts	11,971,946	11,411,435
Bank overdraft	-	29,085,031
Lease participation payable	-	-
Lease participation receivable	-	37,328
The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company, KSA- *affiliate*		
Advance / prepaid against insurance premium, net	1,132,440	2,870,629
Amlak International for Real Estate Development and Finance Company, KSA- *affiliate*		
Rent and premise related receivable on subletting	-	132,653
Key Management Personnel		
Employees' end of service benefits	2,657,002	3,342,838
Loans to key management of the Company	281,273	252,086
Directors' meeting attendance fee payable	900,000	900,000

* The Company has certain lease transactions, in which the related party has a non-recourse participation. The Company charges a fee for administration of the portfolio. The value of such portfolio was SR 4 million as at December 31, 2020 (2019: SR 5.1 million).

27 DIVIDENDS

On March 16, 2020, the Board of Directors, through a circular resolution, proposed an annual dividend of SR 0.671 per share (2018: SR 0.5 per share) for the year ended December 31, 2019 amounting to SR 36.9 million (2018: SR 27.5 million). The shareholders approved the distribution at the General Assembly Meeting, which was held in April 2020.

28 SUBSEQUENT EVENT AND BOARD OF DIRECTORS' APPROVAL

28.1 There was no significant subsequent event which require disclosure in these financial statements.

28.2 These financial statements were approved and authorised for issue by the Board of Directors on February 25, 2021 (corresponding to Rajab 13, 1442H).