Emkan Finance Company
(A Saudi One Person Closed Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2020

Ernst & Young & Co. (Certified Public Accountants)
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INDEPENDENT AUDITOR'S REPORT
To the Shareholder of Emkan Finance Company
(A Saudi One Person Closed Joint Stock Company)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Emkan Finance Company – A Saudi One Person Closed Joint Stock Company (the "Company"), which comprise the statement of comprehensive income for the year ending 31 December 2020, statement of financial position as at 31 December 2020, and statement of changes in shareholder's equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other matter

The financial statements of the Company for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those statements on 17 Ramadan 1441H (corresponding 10 May 2020).

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

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

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

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

Report on the audit of the financial statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Emkan Finance Company
(A Saudi One Person Closed Joint Stock Company) (continued)

Report on the audit of the financial statements (continued)

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

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

for Ernst & Young

Rashid S. Al Rashoud
Certified Public Accountant
License No. (366)

Riyadh: 11 Rajab 1442H
(23 February 2021)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	***2020*** ***SR***	*2019* *SR*
Murabaha financing income	5	**156,368,595**	-
Murabaha financing expense		**(49,465,600)**	-
NET MURABAHA FINANCING INCOME		**106,902,995**	-
Operating expenses			
Selling and Marketing expenses	6	**(8,403,641)**	-
General and administration expenses	7	**(26,553,550)**	(172,144)
Impairment losses on Murabaha financing receivables	9	**(55,853,572)**	-
INCOME (LOSS) BEFORE ZAKAT		**16,092,232**	(172,144)
Zakat	18	**(1,659,109)**	-
NET INCOME (LOSS) FOR THE YEAR		**14,433,123**	(172,144)

The accompanying notes 1 to 24 form an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	***2020 SR***	*2019 SR*
ASSETS			
Bank Balances		**97,522,677**	159,910,649
Prepayments and other assets	8	**4,651,667**	-
Murabaha financing receivables	9	**3,142,480,854**	-
Amount due from related party	10	**8,535,036**	-
Property and equipment	11	**4,958,225**	-
Right of use asset	12	**6,604,297**	-
TOTAL ASSETS		**3,264,752,756**	159,910,649
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accrued expenses and other current liabilities	13	**7,416,273**	82,793
Provision for zakat	18	**1,659,109**	-
Lease liabilities	12	**5,715,543**	-
Loans	14	**2,732,515,670**	-
Employees' defined benefit liabilities	15	**3,185,182**	-
TOTAL LIABILITIES		**2,750,491,777**	82,793
SHAREHOLDERS' EQUITY			
Share capital	16	**500,000,000**	160,000,000
Statutory reserve	17	**1,443,312**	-
Retained earnings / (accumulated losses)		**12,817,667**	(172,144)
TOTAL SHAREHOLDERS' EQUITY		**514,260,979**	159,827,856
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**3,264,752,756**	159,910,649

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2020

	Share capital SR	*Statutory reserve SR*	*(Accumulated losses) / Retained earnings SR*	*Total SR*
Issuance of shares	160,000,000	-	-	**160,000,000**
Net income for the year	-	-	(172,144)	**(172,144)**
Balance at 31 December 2019	**160,000,000**	-	**(172,144)**	**159,827,856**
Issuance of shares	**340,000,000**	**-**	**-**	**340,000,000**
Net income for the year	**-**	**-**	**14,433,123**	**14,433,123**
Transfer to statutory reserve	**-**	**1,443,312**	**(1,443,312)**	**-**
Balance at 31 December 2020	**500,000,000**	**1,443,312**	**12,817,667**	**514,260,979**

The accompanying notes 1 to 24 form an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	*2020* SR	*2019* SR
OPERATING ACTIVITIES			
Income / (loss) before Zakat		**16,092,232**	**(172,144)**
Adjustments for:			
Impairment losses on Murabaha financing receivables	9	**55,734,034**	**-**
Depreciation on property and equipment	11	**43,322**	**-**
Depreciation on right of use assets	12	**346,393**	**-**
Provision for employees' terminal benefits	15	**3,497,525**	**-**
Finance charge on lease	12	**69,103**	**-**
Operating cash flows before working capital changes		**75,782,609**	**(172,144)**
Working capital adjustments:			
Murabaha financing receivables		**(3,198,214,888)**	**-**
Prepayments and other assets		**(4,651,667)**	**-**
Accrued expenses and other current liabilities		**7,333,480**	**82,793**
Related party balances	10,16	**331,464,964**	**-**
Net cash used in operations		**(2,788,285,502)**	**(89,351)**
Employees' terminal benefits paid	15	**(312,343)**	**-**
Net cash used in operating activities		**(2,788,597,845)**	**(89,351)**
INVESTING ACTIVITY			
Additions to property and equipment	11	**(5,001,547)**	**-**
Cash used in investing activity		**(5,001,547)**	**-**
FINANCING ACTIVITIES			
Issuance of share capital	16	**-**	**160,000,000**
Loan proceeds		**3,845,760,193**	**-**
Repayment of loan		**(1,113,244,523)**	**-**
Payment of lease liabilities	12	**(1,304,250)**	**-**
Net cash from financing activities		**2,731,211,420**	**160,000,000**
NET (DECREASE) / INCREASE IN BANK BALANCES		**(62,387,972)**	**159,910,649**
Bank Balances at beginning of the year		**159,910,649**	**-**
BANK BALANCES AT END OF THE YEAR		**97,522,677**	**159,910,649**
SIGNIFICANT NON-CASH TRANSACTIONS			
Increase in share capital	16	**340,000,000**	-
Right of use assets	12	**6,950,690**	-
Lease liabilities	12	**5,715,543**	-

1 ACTIVITIES

Emkan Finance Company ("the Company") is a Saudi One Person Closed Joint Stock Company established under the Regulations for Companies in the Kingdom of Saudi Arabia.

The Company operates under Commercial Registration No.1010501239 issued in Riyadh on 24 Rabi Thani 1440 (corresponding to 1 January 2019) and its Head Office is located at the following address:

Emkan Finance Company
6285 Eastern Ring Branch Rd - Al Rayan Dist.
Unit No 1
Riyadh 14213 - 3203
Kingdom of Saudi Arabia

The Company is licensed by Saudi Arabian Monetary Authority ("SAMA") to carry out consumer finance, financing productive assets, auto leasing and small and medium entities financing in accordance with the approval from SAMA numbered 9/ASH issued on 19 Sha'aban 1441H (corresponding to 12 April 2020).

2 BASIS OF PREPARATION

The financial statements of the Company as at and for the year ended 31 December 2020 and 2019 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 Organization for Certified Public Accountants ("SOCPA").

These financial statements have been presented in Saudi Riyals ("SR"), as it is the functional currency of the Company.

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2019 except policies mentioned below which do not have material effect on the financial statements.

3.2 New and amended IFRS applied with no material effect on the financial statements

The following new and amended IFRSs, which became effective for annual periods beginning on or after January 1, 2020, have been adopted in these financial statements.

Definition of a Business – Amendments to IFRS 3 Business Combinations
The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

Definition of Material - Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial
information about a specific reporting entity.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 New and amended IFRS applied with no material effect on the financial statements (continued)

Amendments to IFRS 16 COVID-19 related rent concessions
On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification.
The amendment applies to annual reporting periods beginning on or after 1 June 2020.

3.3 Significant standards issued but not yet effective

The Company has not applied the following new and amended IFRSs that have been issued but are not yet effective, which will become effective for annual periods on or after January 1, 2020.

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

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

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

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

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property Plant and Equipment: Proceeds before intended use – Amendments to IAS 16
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant standards issued but not yet effective (continued)

IFRS 9 – Financial Instruments
Amendments regarding Fees in the '10 per cent' test for derecognition of financial liabilities.

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

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

IFRS 17 Insurance Contracts
The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4 which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.

The Company has not early adopted any standards, interpretations or amendments before their effective date.

3.4 Summary of significant accounting policies

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

Financial instruments

i) Classification of financial assets
On initial recognition, a financial asset is classified as amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

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

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

Financial assets measured at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets at FVOCI

Debt instruments

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in statement of comprehensive income.

Equity instruments

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

Financial assets at FVTPL

All other financial assets are classified as measured at FVTPL.

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

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

ii) Business model assessment

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

Financial instruments (continued)

ii) Business model assessment (continued)

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

iii) Assessment of whether contractual cash flows are solely payments of principal and interest

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

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

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

iv) Classification of financial liabilities

Upon initial recognition, the Company classifies its financial liabilities, as measured at amortised cost or as at fair value through profit or loss.

Financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through profit or loss or an entity has opted to measure a liability at fair value through profit or loss as per the requirements of IFRS 9.

All the financial liabilities of the Company are currently carried at amortised cost.

Amortised cost

Murabaha financing receivables and other financial assets measured at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

Financial instruments (continued)

v) Derecognition

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in statement of comprehensive income.

Any cumulative gain/loss recognised in OCI in respect of equity investments designated as at FVOCI is not recognised in statement of comprehensive income on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

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

Financial liabilities

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

vi) Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

Financial instruments (continued)

vii) Impairment

The Company recognizes loss allowances for Expected Credit Loss ("ECL") on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments; and
- loan commitments issued, if any.

No impairment loss is recognised on equity investments.

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

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

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

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 categorizes its financial assets into following three stages in accordance with the IFRS-9 methodology:

- Stage 1 – Financial assets that are not significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on 12 months Probability of Default (PD).
- Stage 2 – Financial assets that has significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on lifetime ECL. The impairment allowance is recorded based on life time PD.
- Stage 3 – For financial assets that are impaired, the Company recognizes the impairment allowance based on life time PD.

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

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

Measurement of ECL

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

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

Restructured financial assets

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Restructured financial assets (continued)

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

Presentation of allowance for ECL

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

Financial instruments (continued)

viii) Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as personal guarantees other non-financial assets. The Company's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. The fair value of collaterals affect the calculation of ECLs. The value of the collateral is determined at inception.

ix) Repossessed asset held for sale

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

Revenue / expenses recognition

Murabaha financing income and expenses

Murabaha financing income and expense are recognized in statement of comprehensive income using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortised cost of the financial instrument.

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

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

Measurement of amortised cost and Murabaha financing income

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

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

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

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

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

Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income for the year by numbers of shares.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

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

Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents consist of bank balances and cash in hand and short term bank deposits with original maturities of 90 days or less but does not include restricted cash deposits.

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

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

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

Borrowings
Special commission bearing funding from financial institutions and shareholders are measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the EIR. The EIR amortisation is included in special commission expense in profit or loss.

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

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

Impairment of non-current assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.
In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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

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

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in statement of comprehensive income. Impairment loss recognized against goodwill is not reversed in subsequent periods.

Accrued expenses and other current liabilities
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

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

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

Past service cost are recognised in statement of comprehensive income on the earlier of:
- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

Employees' terminal benefits (continued)

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

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

Zakat

Zakat is provided in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia and on accruals basis. As set out in the note 2, zakat is charged to the statement of comprehensive income. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized.

IFRS 16 Leases

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. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is amortised over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

- *Right of use assets*

The Company recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

- *Lease liabilities*

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less lease incentives receivable if any, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Company presents right of use assets that do not meet the definition of investment property and corresponding liabilities in separate line items captioned *'Right of use assets'* and *'Lease liabilities'* respectively, in the statement of financial position.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

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

The Company applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of property and equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

4 SIGNIFICANT ACCOUNTING ESTIMATES

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

Impairment losses on financial assets

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

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

- The Company's internal credit grading model, which assigns PDs to the individual grades
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as gross domestic product, inflation, average consumer prices, and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings

The Company reviews its Murabaha receivables at each reporting date to assess whether a specific provision for credit losses should be recorded in statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

Going concern

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

Useful lives of property and equipment

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

5 MURABAHA FINANCING INCOME

Murabaha income comprises of income from the following financing products:

	2020	*2019*
	SR	*SR*
Murabaha financing income	**142,638,459**	-
Processing fee	**13,730,136**	-
	156,368,595	**-**

All the Murabaha financing income are from financing products which are Shariah compliant and hence unconventional in nature.

6 SELLING AND MARKETING EXPENSES

	2020	*2019*
	SR	*SR*
Sales incentives	**7,913,390**	-
Marketing expenses	**490,251**	-
	8,403,641	**-**

7 GENERAL AND ADMINSTRATION EXPENSES

	2020	*2019*
	SR	*SR*
Salaries and employee related costs	**20,768,492**	133,144
SIMAH inquiry Fee	**3,745,825**	-
Depreciation expense (note 11 & 12)	**389,715**	-
Other expenses	**1,649,518**	39,000
	26,553,550	172,144

8 PREPAYMENTS AND OTHER ASSETS

	2020	*2019*
	SR	*SR*
Prepaid SIMAH subscription	**4,475,000**	-
Others	**176,667**	-
	4,651,667	-

9 MURABAHA FINANCING RECEIVABLES, NET

	Murabaha receivables	
	2020	*2019*
	SR	*SR*
Gross Murabaha financing receivables	**4,440,706,571**	-
Less: Unrealised profit	**(1,242,491,683)**	-
	3,198,214,888	**-**
Less: Allowance for impairment losses	**(55,734,034)**	-
Murabaha financing receivables, net	**3,142,480,854**	**-**

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

	2020	*2019*
	SR	*SR*
Neither past due nor impaired	**3,167,540,395**	-
Past due but not impaired	**25,347,579**	-
Past due and impaired	**5,326,914**	-
	3,198,214,888	**-**

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

	2020	*2019*
	SR	*SR*
Performing	**3,192,887,974**	-
Non-performing	**5,326,914**	-
	3,198,214,888	**-**

	2020	*2019*
	SR	*SR*
Current	**562,766,058**	-
Non-current	**2,635,448,830**	-
	3,198,214,888	**-**

9 MURABAHA FINANCING RECEIVABLES, NET (continued)

Movement in the allowance for impairment losses were as follows:

	2020 ***SR***	*2019* *SR*
Charge for the year	**55,853,572**	-
Written-off during the year	**(119,538)**	-
At end of the year	**55,734,034**	-

10 RELATED PARTY TRANSACTIONS AND BALANCES

The Company's shareholder, their affiliates and key management personnel are considered as related parties of the Company. In the ordinary course of business, the Company enters into transactions with the related parties, which are based on mutually agreed prices and contract terms approved by the Company's management.

Following are the major related party transactions during the year:

			Amount of transactions for the year ended 31 December	
Related party		***Nature of transaction***	***2020*** ***SR***	*2019* *SR*
Al Rajhi Banking and Investment Corporation	Shareholder	Intragroup account	**8,535,036**	-
Al Rajhi Banking and Investment Corporation	Shareholder	Murabaha financing (note 14)	**3,849,618,913**	-
Al Rajhi Banking and Investment Corporation	Shareholder	Share capital increase	**340,000,000**	-
Al Rajhi Services Company	Affiliate	Outsource staff cost	**5,241,121**	-
Al Rajhi Banking and Investment Corporation	Affiliate	Transfer of employees' terminal benefits (note 15)	**2,745,446**	-
Key management personnel		Remuneration for key management personnel	**1,899,734**	-

Amounts due from a related party are as follows:

Related party		***Nature of transaction***	***2020*** ***SR***	*2019* *SR*
Al Rajhi Banking and Investment Corporation	Shareholder	Intragroup account	**8,535,036**	-

Amounts due to a related party are as follows:

Related party		***Nature of transaction***	***2020*** ***SR***	*2019* *SR*
Al Rajhi Banking and Investment Corporation	Shareholder	Loans (note 14)	**2,732,515,670**	-

11 PROPERTY AND EQUIPMENT

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

Furniture, equipment and computers 4-5 years

	2020			
	Furniture SR	*Equipment and computers SR*	*Capital work in progress SR*	***Total SR***
Cost:				
Additions during the year	83,265	799,954	4,118,328	**5,001,547**
At end of the year	83,265	799,954	4,118,328	**5,001,547**
Accumulated depreciation:				
Charge for the year (note 7)	4,790	38,532	-	**43,322**
At end of the year	4,790	38,532	-	**43,322**
Net book amounts:				
At 31 December 2020	**78,475**	**761,422**	**4,118,328**	**4,958,225**

12 RIGHT OF USE ASSET AND LEASE LIABILITIES

The Company have lease contracts for various office spaces. These leases generally have lease terms between 1 and 5 years.
Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	2020 Office spaces SR
Additions during the year	**6,950,690**
Depreciation expense (note 7)	**(346,393)**
At 31 December 2020	**6,604,297**

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

	2020 SR
Addition during the year	**6,950,690**
Accretion of interest	**69,103**
Payments during the year	**(1,304,250)**
At 31 December 2020	**5,715,543**

12 RIGHT OF USE ASSET AND LEASE LIABILITIES (continued)

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

	2020
	SR
Current	**1,203,272**
Non-current	**4,512,271**
	5,715,543

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

	2020
	SR
Depreciation expense of right-of-use assets	**346,393**
Interest expense on lease liabilities	**69,103**
Total	**415,496**

13 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2020	*2019*
	SR	*SR*
Accrued staff expenses	**2,531,531**	43,793
Accrued Sales & Collection incentives	**2,096,628**	-
Advances from customers	**1,579,746**	-
VAT payable	**303,362**	-
Others	**905,006**	39,000
	7,416,273	82,793

14 LOANS

	2020	*2019*
	SR	*SR*
Loans	**2,732,515,670**	-
Current portion	**502,189,151**	-
Non-current portion	**2,230,326,519**	-

The Company has facilities with Al Rajhi Banking and Investment Corporation amounting to SR 3,850 million. These Murabaha loans which are secured by assignment of proceeds from receivables and carry borrowing cost at fixed interest rates of SIBOR plus 3.5% p.a. These loans are payable on a quarterly basis.

15 EMPLOYEES' DEFINED BENEFIT LIABILITIES

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

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

	2020	*2019*
	SR	*SR*
Present value of employees' defined benefit liabilities	**3,185,182**	-

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

	2020	*2019*
	SR	*SR*
Current service cost	**752,079**	-
Employees' defined benefit liability received from a related party (note 10)	**2,745,446**	-
Benefit expense	**3,497,525**	-

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

	2020	*2019*
	SR	*SR*
Current service cost	**752,079**	-
Employees' defined benefit liability received from a related party (note 10)	**2,745,446**	-
Benefits paid	**(312,343)**	-
Present value of employees' defined benefit liabilities at end of the year	**3,185,182**	-

d) *Principal actuarial assumptions:*

The table below illustrates the sensitivity of the employees' end of service benefits liabilities valuation as at 31 December 2020 to the discount rate 3.20%, salary increase rate 2.5% for 2021 and 3% thereafter, withdrawal assumptions and mortality rates.

e) *Sensitivity analysis*

A qualitative sensitivity analysis for significant assumptions as at 31 December 2020, is as shown:

	SR		
2020	**Impact on defined benefit obligation – Increase / (Decrease)**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**+/- 1%**	**2,805,868**	**3,640,710**
Expected rate of salary increase	**+/- 1%**	**3,637,041**	**2,801,056**
Withdrawal rate	**+/- 20%**	**3,132,076**	**3,236,592**

16 SHARE CAPITAL

Share capital is divided into 50,000,000 shares (31 December 2019: 16,000,000 shares) of SR 10 each.

In its meeting held on 28 June 2020, the shareholder has resolved to increase the Company capital from SR 160 million to SR 500 million through capitalisation of amounts due from shareholder. The legal formalities for increase in share capital have been completed in August 2020.

17 STATUTORY RESERVE

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

18 ZAKAT

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

	2020	2019
	SR	*SR*
Charge for the year	**1,659,109**	-
At end of the year	**1,659,109**	-

Status of assessments
The Company is a wholly owned subsidiary of Al Rajhi Banking and Investment Corporation ("the Shareholder"). According to the Ministerial Resolution No. 1005, dated 28 Rabi Thani 1428H (15 May 2007), the Shareholder submits zakat return based on its consolidated financial statements and consolidated zakat base and settles zakat liability accordingly. The Shareholder has charged the Company SR 1,659,109 for the year ended 31 December 2020 (SR Nil for the year ended 31 December 2019).

19 CAPITAL MANAGEMENT

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

20 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

The principal or the most advantageous market must be accessible to by the Company.

Financial instruments comprise financial asset and financial liabilities. Financial assets of the Company includes bank balances and Murabaha receivables. Financial liabilities of the Company include borrowings and accruals.

20 FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All the financial assets and liabilities of the Company are classified within level 3 of the fair value hierarchy.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement. There have been no transfers between various fair value hierarchy level during the current or prior year.

Management believes that the fair value of financial assets and liabilities at the reporting date approximate their carrying values.

21 FINANCIAL RISK MANAGEMENT

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

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

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

	2020	*2019*
	SR	*SR*
Murabaha financing receivables, net	**3,142,480,854**	-
Other assets	**8,535,036**	-
	3,151,015,890	-

21 FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality analysis

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

	2020 ***SR***	*2019* *SR*
Neither past due nor impaired	**3,167,540,395**	-
Past due but not impaired	**25,347,579**	-
Past due and impaired	**5,326,914**	-
	3,198,214,888	-

a) Gross carrying value of Murabaha financing receivable before ECL

	12 month ECL *SR*	*Life time ECL not credit impaired* *SR*	*Lifetime ECL credit impaired* *SR*	*Total* *SR*
31 December 2020	**3,167,540,395**	**25,347,579**	**5,326,914**	**3,198,214,888**
31 December 2019	-	-	-	-

b) Allowance for ECL

	12 month ECL *SR*	*Life time ECL not credit impaired* *SR*	*Lifetime ECL credit impaired* *SR*	*Total* *SR*
31 December 2020	**47,667,502**	**4,151,267**	**3,915,265**	**55,734,034**
31 December 2019	-	-	-	-

Amounts arising from ECL – Significant increase in credit risk

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

Credit risk grades

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

21 FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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

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

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors include GDP growth and inflation.

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

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

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

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

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

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

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

21 FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit risk grades (continued)

b) Modified financial assets (continued)

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

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

c) Definition of 'Default'

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

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

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

d) Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom of Saudi Arabia and selected private sector and academic forecasters.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

e) Measurement of ECL

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

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

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

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

21 FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit risk grades (continued)

f) Measurement of ECL (continued)

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

g) Governance and controls

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

Liquidity risk

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

Analysis of financial liabilities by remaining contractual maturities

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

	Within 3 months	*3 to 12 months*	*1 to 5 years*	*Total SR*
31 December 2020				
Accrued expenses and other current liabilities	9,376,200	902,454	7,697,453	**17,976,107**
Loans	137,969,531	364,219,620	2,230,326,519	**2,732,515,670**
	147,345,731	**365,122,074**	**2,238,023,972**	**2,750,491,777**
31 December 2019	-	-	-	-
Accrued expenses and other current liabilities	82,793	**-**	-	**82,793**
	82,793	**-**	**-**	**82,793**

21 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

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

	Within 3 months SR	*3 to 12 months SR*	*1 to 5 years SR*	*No fixed maturity SR*	*Total SR*
31 December 2020					
Bank Balances	97,522,677	-	-	-	**97,522,677**
Murabaha financing receivables	132,558,278	420,895,419	2,589,027,157	-	**3,142,480,854**
Other assets	10,837,694	4,550,056	9,361,475	-	**24,749,225**
Financial assets	**240,918,649**	**425,445,475**	**2,598,388,632**	**-**	**3,264,752,756**
Accrued expenses and other current liabilities	9,376,200	902,454	7,697,453	-	**17,976,107**
Zakat payable	1,659,109	-	-	-	**1,659,109**
Loans	137,969,531	364,219,620	2,230,326,519	-	**2,732,515,670**
Employees' defined benefits liability	-	-	-	3,185,182	**3,185,182**
Financial liabilities	**149,004,840**	**365,122,074**	**2,238,023,972**	**3,185,182**	**2,755,336,068**
Maturity gap	**91,913,809**	**60,323,401**	**360,364,660**	**(3,185,182)**	**509,416,688**
Cumulative maturity gap	**91,913,809**	**152,237,210**	**512,601,870**	**509,416,688**	

	Within 3 months SR	*3 to 12 months SR*	*1 to 5 years SR*	*No fixed maturity SR*	*Total SR*
31 December 2019					
Bank Balances	159,910,649	**-**	**-**	**-**	159,910,649
Financial assets	159,910,649	**-**	**-**	**-**	159,910,649
Accrued expenses and other current liabilities	**-**	82,793	**-**	**-**	82,793
Financial liabilities	-	82,793	-	**-**	82,793
Maturity gap	159,910,649	(82,793)	-	**-**	159,827,856
Cumulative maturity gap	159,910,649	159,827,856	-	**-**	

21 FINANCIAL RISK MANAGEMENT (continued)

Profit rate risk

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

All of the Company's profit bearing assets carry profit at fixed rates and therefore, management believes that the Company is not exposed to any profit rate risk in respect of these assets.

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

	2020	
	Change in basis points	*Impact on net income SR*
Saudi Riyals	+50	**(4,605,590)**
Saudi Riyals	-50	**4,605,590**

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

	2020				
	Within 3 months SR	*3 -12 months SR*	*1 to 5 years SR*	*Non profit bearing SR*	*Total SR*
Assets					
Bank Balances	-	-	-	97,522,677	**97,522,677**
Prepayments and other assets	-	-	-	13,186,703	**13,186,703**
Murabaha financing receivables	132,558,278	420,895,419	2,589,027,157	-	**3,142,480,854**
Right to use assets	-	-	-	6,604,297	**6,604,297**
Property and equipment	-	-	-	4,958,225	**4,958,225**
Total assets	**132,558,278**	**420,895,419**	**2,589,027,157**	**122,271,902**	**3,264,752,756**
Liabilities					
Accrued expenses and other current liabilities	-	-	-	7,416,273	**7,416,273**
Provision for zakat	-	-	-	1,659,109	**1,659,109**
Lease liabilities	-	-	-	5,715,543	**5,715,543**
Loans	137,969,531	364,219,620	2,230,326,519	-	**2,732,515,670**
Employees' terminal benefits	-	-	-	3,185,182	**3,185,182**
Total liabilities	**137,969,531**	**364,219,620**	**2,230,326,519**	**17,976,107**	**2,750,491,777**
Total profit rate sensitivity gap	**(5,411,253)**	**56,675,799**	**358,700,638**	**104,295,795**	**514,260,979**
Cumulative profit rate sensitivity gap	**(5,411,253)**	**51,264,546**	**409,965,184**	**514,260,979**	

21 FINANCIAL RISK MANAGEMENT (continued)

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

22 CAPITAL COMMITMENT

As at 31 December 2020, the Company had capital commitments of SAR 15 million (2019: SR nil) relating to contracts for computer software update and development.

23 EVENTS AFTER THE REPORTING PERIOD

On 27 January 2021 the Board of Directors approved to increase the share capital of the Company from SR 500 million to SR 2,000 million.

Subsequent to the year end, the Company executed a sale and purchase, and agency agreements ("the agreements") with Al Rajhi Banking and Investment Corporation ("the Bank") in respect of certain Murabha financing receivables. Under the terms of the agreements, the Company sold the eligible Murabha receivables amounting SR 1,547 million to the Bank and undertook to manage them on behalf of the Bank as an agent for an agency fee as per the terms of the agreements. The Company has also secured SAMA approval on this transaction.

However, there have been no other significant subsequent events since the year ended 31 December 2020 that would have material impact on the statement of financial position of the Company.

24 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 22 February 2021 (corresponding to 10 Rajab 1442H).