RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)

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

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

Independent auditor's report to the shareholders of Raya Financing 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 Raya Financing Company (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, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants (SOCPA).

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- 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 significant accounting policies and other explanatory information.

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

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

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

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Independent auditor's report to the shareholders of Raya Financing 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 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 scepticism throughout the audit.

We also:

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

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

Report on other legal and regulatory requirements

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

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License Number 369

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C R 1010371622

2 March 2021

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 31 December 2020	2019
Assets			
Non-current assets			
Right-of-use assets	5	**3,508,125**	4,068,668
Property and equipment	6	**648,512**	567,899
Intangible assets	7	**5,411,618**	6,930,874
Net investment in finance leases non-current portion	8	**158,640,928**	216,696,617
Net investment in murabaha finance - non-current portion	9	**48,052,879**	9,163,477
Financial asset at fair value through other comprehensive income	10	**892,850**	892,850
		217,154,912	238,320,385
Current assets			
Net investment in finance leases - current portion	8	**85,405,462**	91,529,572
Net investment in murabaha finance - current portion	9	**36,217,034**	12,086,314
Prepayments and other receivables	11	**11,377,928**	14,713,934
Cash and cash equivalents	12	**148,452,810**	54,670,331
		281,453,234	173,000,151
Total assets		**498,608,146**	411,320,536
Liabilities and equity			
Liabilities			
Non-current liabilities			
Long-term borrowings	13	**210,892,221**	103,810,362
Lease liabilities - non-current portion	5	**3,037,419**	3,485,893
Loan from a shareholder - non-current portion	22	**-**	52,000,000
Employee benefit obligations	14	**3,012,634**	2,685,221
		216,942,274	161,981,476
Current liabilities			
Current maturity of long-term borrowings	13	**77,329,350**	47,657,378
Accounts payable	15	**64,630,414**	62,755,317
Accrued and other liabilities	16	**17,683,004**	10,650,511
Lease liabilities - current portion	5	**655,116**	690,276
Loan from a shareholder - current portion	22	**-**	13,206,298
Zakat payable	17	**1,216,458**	-
		161,514,342	134,959,780
Total liabilities		**378,456,616**	296,941,256
Equity			
Share capital	18	**150,000,000**	150,000,000
Accumulated losses		**(29,848,470)**	(35,620,720)
Total equity		**120,151,530**	114,379,280
Total liabilities and equity		**498,608,146**	411,320,536

The accompanying notes are an integral part of these financial statements.

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December	
		2020	**2019**
Income			
Revenues	19	**51,587,891**	48,204,817
Gain on modification of long-term borrowings	28	**2,228,272**	-
Gain on finance lease receivables sold to a financial institution	8.7, 25	**16,607,936**	-
		70,424,099	48,204,817
Expenses			
Provision for impairment of financial assets	8,9	**(3,656,704)**	(2,271,565)
Insurance and other cost of financed vehicles		**(13,013,597)**	(12,561,987)
Salaries and employee related expenses		**(19,866,190)**	(20,138,268)
Depreciation and amortization	5,6,7	**(2,625,465)**	(2,264,989)
Loss on modification of finance lease and murabaha finance receivables, net of grant income	28	**(12,645,417)**	-
Other expenses	20	**(5,160,374)**	(3,385,108)
Finance charges	21	**(6,497,741)**	(8,821,287)
Profit (loss) before zakat		**6,958,611**	(1,238,387)
Zakat	17	**(1,434,587)**	218,129
Profit (loss) for the year		**5,524,024**	(1,020,258)
Other comprehensive income			
Items that will not be reclassified to profit or loss-			
Re-measurements of employee benefit obligations	14	**248,226**	(265,783)
Total comprehensive income (loss) for the year		**5,772,250**	(1,286,041)

The accompanying notes are an integral part of these financial statements.

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Accumulated losses	Total
Balance at 1 January 2020		150,000,000	(35,620,720)	**114,379,280**
Profit for the year		-	5,524,024	**5,524,024**
Other comprehensive income for the year		-	248,226	**248,226**
Total comprehensive income for the year		-	5,772,250	**5,772,250**
Balance at 31 December 2020		**150,000,000**	**(29,848,470)**	**120,151,530**
Balance at 1 January 2019		100,000,000	(34,334,679)	65,665,321
Loss for the year		-	(1,020,258)	(1,020,258)
Other comprehensive loss for the year		-	(265,783)	(265,783)
Total comprehensive loss for the year		-	(1,286,041)	(1,286,041)
Increase in share capital through conversion of balance payable to a shareholder	1	50,000,000	-	50,000,000
Balance at 31 December 2019		150,000,000	(35,620,720)	114,379,280

The accompanying notes are an integral part of these financial statements.

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December 2020	2019
Cash flows from operating activities			
Profit (loss) before zakat		**6,958,611**	(1,238,387)
Adjustments for			
Provision for impairment of financial assets	8,9	**3,656,704**	2,271,565
Depreciation	5,6	**1,106,209**	922,591
Amortisation	7	**1,519,256**	1,342,398
Finance charges	21	**6,497,741**	8,821,287
Employee benefit obligations		**575,639**	601,310
Gain on modification of long-term borrowings	13	**(2,228,272)**	-
Loss on modification of finance lease and murabaha finance receivables, net of grant income	8,9,28	**12,645,417**	-
Gain on finance lease receivables sold to a financial institution	25	**(16,607,936)**	-
Changes in working capital			
Net investment in finance leases and murabaha finance		**(94,565,458)**	(113,284,928)
Cash received on sale of finance lease receivable	25	**96,460,444**	-
Prepayments and other receivables		**2,131,353**	(5,268,991)
Accounts payable		**1,875,097**	56,609,888
Accrued and other liabilities		**5,493,862**	3,808,087
Net cash generated from (used in) operating activities		**25,518,667**	(45,415,180)
Cash flows from investing activity			
Payments for purchase of property and equipment	6	**(290,202)**	(218,565)
Cash flows from financing activities			
Proceeds from long-term borrowings	13	**320,661,142**	129,858,249
Repayment of long-term borrowings	13	**(181,264,304)**	(28,822,057)
Interest paid on long-term borrowings	13	**(3,888,455)**	(5,102,033)
Finance charges paid to a shareholder	22	**(914,357)**	(2,868,166)
Repayment of loan from related parties	22	**(65,000,000)**	-
Finance lease liabilities paid	5	**(1,040,012)**	(839,215)
Net cash generated from financing activities		**68,554,014**	92,226,778
Net increase cash and cash equivalents		**93,782,479**	46,593,033
Cash and cash equivalents at beginning of year		**54,670,331**	8,077,298
Cash and cash equivalents at end of year	12	**148,452,810**	54,670,331
Supplemental cash flow information			
Non-cash operating and investing activities:			
Increase in share capital through conversion of balance payable to a shareholder	1	**-**	50,000,000
Net service liability recognised on derecognition of lease receivables		**1,538,631**	-
Prepaid expenses adjusted from net income on derecognition of lease receivables		**(986,524)**	-
Transfer from payable to a shareholder to loan from a shareholder	22.4	**-**	65,000,000

The accompanying notes are an integral part of these financial statements.

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Raya Financing Company (the "Company") is a Saudi closed joint stock company, registered in the Kingdom of Saudi Arabia under the commercial registration ("CR") number 2050104609 issued in Dammam on 8 Rabi II 1436H (28 January 2015) and operating under the Saudi Arabian Monetary Authority (SAMA) approval number 351000153064 dated 25 Dhul Hijjah 1435H (19 October 2014). The Company has obtained the license from SAMA to conduct finance leasing activities on 14 Jumada II, 1437H (23 March 2016). The registered address of the Company is P.O. Box 6812, Dammam 31452, Kingdom of Saudi Arabia.

During 2019, the Company received no objection certificate from SAMA to conduct murabaha finance business in the Kingdom of Saudi Arabia.

The Company is effectively owned 100% by Al Majdouie Holding Company Limited (the "Parent Company") and is part of the Al Majdouie Group of Companies. The Parent Company is effectively owned by Ali Ibrahim Saleh Al Majdouie Company (the 'Ultimate Parent Company'), which is controlled by Sheikh Ali Ibrahim Saleh Al Majdouie (the 'Ultimate Controlling Party')

The accompanying financial statements include the operations of the Company and its following branches:

Location	**CR No.**
Jeddah	4030296155
Jeddah	4030296160
Riyadh	1010610746
Dammam	2050115423

During 2019, the shareholders of the Company resolved to increase the Company's share capital through conversion of a balance payable to Al Majdouie Motors Company (a shareholder) of Saudi Riyals 50,000,000, by increasing the number of issued shares held by Al Majdouie Motors Company. Legal formalities for the increase in share capital were completed in 2019.

2 Basis of preparation

2.1 Compliance with IFRS

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

2.2 Historical cost convention

These financial statements have been prepared under the historical cost convention except as otherwise disclosed in the accounting policies below.

2.3 New standards and amendment to standards and interpretations

There are no new standards applicable to the Company, however, certain amendments to standards became applicable for the current reporting period. The Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amendments to standards:

- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform. These amendments provide certain reliefs in connection with interest rate benchmark reform.

- Amendments to IFRS 3, 'Business combinations' effective 1 January 2020. These amendments contained a revised definition of business.

- Amendments to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' effective from 1 January 2020. These amendments contain guidance on use of a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information.

There are no IFRSs or International Financing Reporting Interpretations Committee (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Company.

3 Summary of significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Foreign currency translations

(a) Functional and presentation currency

These financial statements are presented in Saudi Riyals ("SR) which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

3.2 Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits and short-term highly liquid investments, with original maturities up to three months, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

3.3 Net investment in finance leases and murabaha finance

Finance leases

Leases in which the Company transfers substantially all the risk 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 ("PVMLP) and subsequently measured at amortised cost using the effective commission rate.

Gross investment in finance leases include the total of future lease payments on finance leases including residual amount receivable ("Lease rentals"). Security deposits with right to offset against lease rentals are deducted from gross investments in finance lease. The difference between lease rentals and the cost of the leased asset including transaction costs is recorded as unearned finance income.

For presentation purposes, the unearned finance income and impairment provision for lease losses are deducted from the gross investment in finance leases.

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 installments.

3.4 Repossessed assets held for sale

The Company, in the ordinary course of its business, acquires certain vehicles against settlement of related net investment in finance leases. Such assets are considered as assets held for sale are initially recorded at the net realizable value of repossessed assets.

Subsequent to the initial recognition, these assets are carried at the lower of their carrying values or the related net realizable value. Changes in net realisable value and gains or losses on disposal are charged or credited to the statement of comprehensive income.

3.5 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment, if any. Depreciation is charged to the statement of comprehensive income, using the straight-line method, to allocate their cost, net of their residual values, if any, over their estimated useful lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the statement of comprehensive income.

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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

3.6 Intangible assets

Intangible assets having definite lives are stated at cost less accumulated amortisation and accumulated impairment, if any, except for intangible assets under development which are carried at cost. Amortisation is charged to the statement of comprehensive income, using the straight-line method, to allocate the cost over the estimated useful lives not exceeding seven years. The useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date.

Subsequent costs are included in the asset's carrying amounts 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 Company and the cost of the item can be measured reliably.

Gains and losses on disposals, if any, are taken to the statement of comprehensive income in the period in which they arise.

3.7 Financial instruments

3.7.1 Financial assets

(i) Classification

The Company's financial assets are classified and measured under the following categories:

- Fair value through other comprehensive income (FVTOCI); and
- Amortised cost.

These classifications are on the basis of business model of the Company for managing the financial assets, and contractual cash flow characteristics.

The Company measures financial asset at amortised cost when it is within the business model to hold assets in order to collect contractual cash flows, and 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.

For assets measured at fair value through other comprehensive income, gains and losses will be recorded in other comprehensive income.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement

Subsequent measurement of financial assets is as follows:

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Company assesses on a forward looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For net investment in finance leases and murabaha finance, the Company applies the three-stage model ('general model') for impairment based on changes in credit quality since initial recognition.

Stage 1 ("Performing") includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the ECL that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset, weighted by the probability that the loss will occur in the next 12 months.

Stage 2 ("Under-performing") includes financial instruments that have had a significant increase in credit risk since initial recognition, unless they have low credit risk at the reporting date, but that do not have objective evidence of impairment. A significant increase in credit risk is presumed if a receivable is more than 30 days past due. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the ECL that result from all possible default events over the maximum contractual period during which the Company is exposed to credit risk. ECL are the weighted average credit losses, with the respective risks of a default occurring as the weights.

Stage 3 ("Non-performing") includes financial assets that have objective evidence of impairment at the reporting date. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

The Company, when determining whether the credit risk on a financial instrument has increased significantly, considers reasonable and supportable information available (e.g. days past due, customer credit scoring etc.), in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument.

While cash and cash equivalents and other recievables are also subject to impairment requirements of IFRS 9, these are considered as low risk and the impairment loss is not expected to be material.

Financial assets are written-off only when:

(i) the receivable is at least one year past due, and
(ii) 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 receivable due. Where recoveries are made, after write-off, are recognized as other income in the statement of comprehensive income.

3.7.2 Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortised cost using the effective interest rate method.

A financial liability is derecognised when the obligation is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in statement of comprehensive income.

3.7.3 Offsetting

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

3.8 Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognised for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately in the statement of comprehensive income.

3.9 Accounts payable and accruals

Liabilities are obligations to pay for goods and services received, whether or not billed to the Company. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.10 Borrowings

Borrowings are initially recognized at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition, borrowings are measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in statement of comprehensive income as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3.11 Employee benefit obligations

The Company provides end-of-service benefits to its employees. The entitlement to these benefits is usually based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds or high-quality corporate bonds.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and is recognised in the statement of comprehensive income.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in the statement of comprehensive income as past service costs.

The calculation of defined benefit obligations is performed periodically using the projected unit credit method.

3.12 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

3.13 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Finance lease and murabaha finance income is recognised using the effective yield method.

Commission income on lease of motor vehicles is recognised when the lease contracts are executed, as per the agreed terms with the respective supplier.

3.14 Government grant

The Company recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Company will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of 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 interest 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. The government grant is recognised in the statement of comprehensive income on a systematic basis over the period in which the Company recognises as expenses the related costs for which the grant is intended to compensate.

3.15 Leases

At the inception of the contract the Company assesses whether a contract is or contains a lease. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liabilities

The lease liability is initially measured at the net present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the Company as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, if the Company does not have recent third-party financing, and
- makes adjustments specific to the lease, for example term, currency and security.

Lease liabilities include the net present value of the following lease payments:

- fixed lease payments, less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

The Company re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets (ROU)

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 “Provisions, contingent liabilities and contingent assets”. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of the lease term or the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 “Impairment of Assets” to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

3.16 Zakat and taxes

In accordance with the regulations of the General Authority of Zakat and Tax (“GAZT”), the Company is subject to zakat. Zakat expense is charged to profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income Tax law.

4 Critical accounting estimates and assumptions

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. There are no critical estimates that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve-month period.

(All amounts in Saudi Riyals unless otherwise stated)

5 Leases

i) Amounts recognised in the statement of financial position

	2020	2019
Right-of-use assets		
Office premises and delivery yards	**3,508,125**	4,068,668
Lease liabilities		
Current	**655,116**	690,276
Non-current	**3,037,419**	3,485,893
	3,692,535	4,176,169

Additions to the right-of-use assets during 2020 were Saudi Riyals 0.3 million (2019: Nil).

ii) Amounts recognised in profit and loss

	2020	2019
Depreciation charge of right-of-use assets		
Office premises and delivery yards	**896,620**	704,740
Interest charge on leases (included in finance charges) (Note 21)	**220,301**	241,976

The total cash outflow for leases in 2020 was Saudi Riyals 1.0 million (2019: Saudi Riyals 0.8 million).

iii) Additional information about the Company's leasing activities

The Company has leases in respect of various offices and delivery yards. Rental contracts are typically made for fixed periods of 1 to 3 years but may have extension options as described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in a number of property leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension options held are exercisable only by mutual agreement of the Company and the respective lessor.

(All amounts in Saudi Riyals unless otherwise stated)

6 Property and equipment

	1 January 2020	Additions	Disposals	31 December 2020
2020				
Cost				
Vehicles	46,485	28,267	-	**74,752**
Furniture, fixtures and office equipment	1,523,093	261,935	-	**1,785,028**
	1,569,578	290,202	-	**1,859,780**
Accumulated depreciation				
Vehicles	(35,832)	(27,613)	-	**(63,445)**
Furniture, fixtures and office equipment	(965,847)	(181,976)	-	**(1,147,823)**
	(1,001,679)	(209,589)	-	**(1,211,268)**
	567,899			**648,512**

	1 January 2019	Additions	Disposals	31 December 2019
2019				
Cost				
Vehicles	46,485	-	-	46,485
Furniture, fixtures and office equipment	1,311,449	218,565	(6,921)	1,523,093
	1,357,934	218,565	(6,921)	1,569,578
Accumulated depreciation				
Vehicles	(24,211)	(11,621)	-	(35,832)
Furniture, fixtures and office equipment	(766,538)	(206,230)	6,921	(965,847)
	(790,749)	(217,851)	6,921	(1,001,679)
	567,185			567,899

Useful lives of property and equipment are as follows:

	Number of years
• Vehicles	4
• Furniture, fixtures and office equipment	3 - 5

7 Intangible assets

Intangible comprise of computer software and license. The movement in intangible assets is as follows:

	2020	2019
Cost		
At 1 January and 31 December	**10,015,785**	10,015,785
Accumulated amortization		
At 1 January	**(3,084,911)**	(1,742,513)
Charge for the year	**(1,519,256)**	(1,342,398)
At 31 December	**(4,604,167)**	(3,084,911)
Net book value		
At 31 December	**5,411,618**	6,930,874

(All amounts in Saudi Riyals unless otherwise stated)

8 Net investment in finance leases

8.1 Reconciliation between gross and net investment in finance leases is as follows:

	Note	2020	2019
Gross investment in finance leases		**319,007,621**	410,638,282
Unearned finance income		**(65,558,130)**	(96,025,787)
Present value of minimum lease payments receivable		**253,449,491**	314,612,495
Provision for impairment of lease receivables	8.3	**(9,403,101)**	(6,386,306)
Net investment in finance leases		**244,046,390**	308,226,189
Investment in finance leases - non-current portion		**(158,640,928)**	(216,696,617)
Investment in finance leases - current portion		**85,405,462**	91,529,572

8.2 Maturity profile of gross investment in finance leases and present value of minimum lease payments receivables is as follows:

	2020	2019
Gross investment in finance leases		
Within one year	**124,106,593**	138,584,906
From one to two years	**103,958,222**	118,392,989
From two to three years	**48,274,762**	77,306,252
From three to four years	**22,463,810**	45,015,671
Four to five years	**20,204,234**	31,338,464
	319,007,621	410,638,282
Present value of minimum lease payments receivable		
Within one year	**90,820,340**	94,478,568
From one to two years	**85,691,768**	90,674,493
From two to three years	**39,989,642**	62,729,558
From three to four years	**18,508,740**	37,306,871
Four to five years	**18,439,001**	29,423,005
	253,449,491	314,612,495

8.3 The movement in provision for impairment of lease receivables is as follows:

	2020	2019
As at 1 January	**6,386,306**	4,183,822
Charge for the year	**3,016,795**	2,202,484
As at 31 December	**9,403,101**	6,386,306

(All amounts in Saudi Riyals unless otherwise stated)

8.4 Category-wise movement in provision for impairment of lease receivables is as follows:

	Performing	Under-performing	Non-performing	Total
2020				
Opening balance as at 1 January 2020	1,128,075	426,190	4,832,041	6,386,306
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(45,737)	604,571	(230,969)	**327,865**
Individual financial assets transferred to non -performing (credit-impaired financial assets)	(25,926)	(55,470)	2,813,770	**2,732,374**
Individual financial assets transferred to performing (12-month expected credit losses)	289,275	(225,252)	(600,215)	**(536,192)**
New financial assets originated or purchased	559,096	118,344	91,625	**769,065**
Recoveries	(430,965)	(82,167)	(926,916)	**(1,440,048)**
Other changes	496,200	308,745	358,786	**1,163,731**
Closing balance as at 31 December 2020	**1,970,018**	**1,094,961**	**6,338,122**	**9,403,101**

	Performing	Under-performing	Non-performing	Total
2019				
Opening balance as at 1 January 2019	1,018,033	310,943	2,854,846	4,183,822
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(114,163)	157,567	(371,468)	(328,064)
Individual financial assets transferred to non -performing (credit-impaired financial assets)	(37,637)	(62,478)	2,651,882	2,551,767
Individual financial assets transferred to performing (12-month expected credit losses)	42,780	(127,440)	(478,667)	(563,327)
New financial assets originated or purchased	571,003	211,845	737,693	1,520,541
Recoveries	(351,941)	(64,247)	(639,263)	(1,055,451)
Other changes	-	-	77,018	77,018
Closing balance as at 31 December 2019	1,128,075	426,190	4,832,041	6,386,306

The Company currently generates substantially all of its revenues from leasing of motor vehicles in the Kingdom of Saudi Arabia. Finance leases receivables of the Company are related to corporate and retail customers. The credit risk on net investment in finance leases is mitigated by the retention of legal title documents of the leased assets. The expected credit losses are recognized considering the historical probability of default and loss given default, which are adjusted for the potential impact of forward looking macro-economic factors, if any. The estimated value of collaterals (i.e. leased vehicles) held against non-performing lease receivables at 31 December 2020, amounted to Saudi Riyals 13.6 million (2019: Saudi Riyals 14.2 million).

(All amounts in Saudi Riyals unless otherwise stated)

8.5 Category-wise gross lease receivables are as follows:

	2020	2019
Performing	**273,917,234**	323,435,129
Under-performing	**19,451,561**	65,110,538
Non-performing	**25,638,826**	22,092,615
	319,007,621	410,638,282

8.6 Category-wise lease receivables (net of impairment provision) are as follows:

	2020	2019
Performing	**271,947,216**	322,307,054
Under-performing	**18,356,600**	64,684,348
Non-performing	**19,300,704**	17,260,574
	309,604,520	404,251,976

8.7 During 2020, the Company sold its finance lease receivables under a purchase and agency agreement, amounting to Saudi Riyals 77.3 million to a financial institution and derecognized the same from its books, and recorded a net gain of Saudi Riyals 16.6 million on the derecognition. The outstanding position of sold finance lease receivables has been disclosed in Note 25. In respect of these sold finance lease receivables, the Company acts in the capacity of a servicing agent for subsequent collection of lease instalments on behalf of financial institution. The Company has calculated and accounted for a net servicing liability under the agreement with the financial institution, which is disclosed in Note 26.

9 Net investment in murabaha finance

9.1 Reconciliation between gross and net murabaha finance is as follows:

	2020	2019
Gross investment in murabaha finance	**98,778,908**	24,757,803
Unearned murabaha finance income	**(13,800,005)**	(3,438,931)
	84,978,903	21,318,872
Provision for impairment	**(708,990)**	(69,081)
Net investment in murabaha finance	**84,269,913**	21,249,791
Investment in murabaha finance - non-current portion	**(48,052,879)**	(9,163,477)
Investment in murabaha finance - current portion	**36,217,034**	12,086,314

9.2 The movement in provision for impairment of murabaha finance is as follows:

	2020	2019
At 1 January	**69,081**	-
Charge for the year	**639,909**	69,081
At 31 December	**708,990**	69,081

(All amounts in Saudi Riyals unless otherwise stated)

9.3 Category-wise movement in provision for impairment of murabaha finance is as follows:

	Performing	Under-performing	Total
At 1 January 2020	69,081	-	69,081
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(296)	8,231	**7,935**
New financial assets originated or purchased	557,543	24,392	**581,935**
Recoveries	(927)	-	**(927)**
Other changes	50,966	-	**50,966**
At 31 December 2020	**676,367**	**32,623**	**708,990**

During 2019, the Company started murabaha finance after obtaining license from SAMA. As at 31 December 2019, the outstanding balances are considered performing. The provision on the outstanding balance was recognised based on the expected credit loss.

9.4 Category-wise gross murabaha finance are as follows:

	2020	2019
Performing	**98,560,816**	24,757,803
Under-performing	**218,092**	-
	98,778,908	24,757,803

9.5 Category-wise murabaha finance (net of impairment provision) are as follows:

	2020	2019
Performing	**97,884,449**	24,688,722
Under-performing	**185,469**	-
	98,069,918	24,688,722

10 Financial asset at fair value through other comprehensive income

The Company holds 89,285 shares in Saudi Finance Leasing Contracts Registry Company, a Saudi joint stock company (the "investee Company") registered in the Kingdom of Saudi Arabia Saudi for lease contracts registration, which represents 2% of total share capital of the investee Company. The management believes that the carrying value of the investment approximates to the fair value at 31 December 2020 and 2019.

11 Prepayments and other receivables

	Note	2020	2019
Prepayments		**3,880,361**	5,007,054
Advances to a related party	22	**1,956,000**	1,927,238
Insurance claims		**872,243**	2,846,709
Advances to suppliers		**1,545,392**	2,176,697
Repossessed assets held for resale		**707,022**	618,922
Advance repayments of long-term borrowings		**1,136,991**	-
Zakat refundable	17	**-**	218,129
Other		**1,279,919**	1,919,185
		11,377,928	14,713,934

12 Cash and cash equivalents

	2020	2019
Cash in hand	**110,424**	54,420
Cash at bank	**148,342,386**	54,615,911
	148,452,810	54,670,331

13 Long-term borrowings

	2020	2019
Murabaha facilities	**167,349,730**	112,773,584
Government bank loan	**85,824,600**	37,860,532
Payable to SAMA	**32,680,262**	-
Accrued finance cost	**2,366,979**	833,624
	288,221,571	151,467,740
Long-term borrowings are presented as follows:		
Current maturity shown under current liabilities	**77,329,350**	47,657,378
Long-term borrowings	**210,892,221**	103,810,362
	288,221,571	151,467,740

The movement in long-term borrowings is as follows:

	Note	2020	2019
At 1 January		**151,467,740**	50,028,734
Proceeds from long-term borrowings		**320,661,142**	129,858,249
Gain on interest free funding received from SAMA	28	**(2,095,661)**	-
Gain on modification of long-term borrowings	28	**(2,228,272)**	-
Finance charges for the year		**5,569,381**	5,504,847
Less: repayment of principal		**(181,264,304)**	(28,822,057)
Less: repayment of finance charges		**(3,888,455)**	(5,102,033)
At 31 December		**288,221,571**	151,467,740

13.1 Murabaha facilities

During 2020, the Company has drawn Saudi Riyals 137.0 million (2019: Saudi Riyals 90.0 million) from its murabaha facilities. The loans are secured against corporate guarantees from certain related parties, collateral on receivables against certain leased vehicles covering at least 125% to 150% of the outstanding borrowings. The loan agreements contain covenant regarding maintenance of leverage ratio and the Company has complied with this covenant throughout the reporting period. The loans bear financial charges based on prevailing market rates which are based on Saudi Inter Bank Offer Rates. The carrying values of such long-term borrowings are denominated in Saudi Riyals. The repayment of such loans as per the respective repayment schedule is up to 2025. The total murabaha facilities of the Company as at 31 December 2020 is Saudi Riyals 300.0 million (2019: 300.0 million), out of which Saudi Riyals 113.0 million was unutilized as at 31 December 2020 (2019: Saudi Riyals 150.0 million).

Further during 2020, the Company has settled long-term borrowings of Saudi Riyals 61.4 million before their respective contractual maturities.

13.2 Government bank loan

During 2020, the Company entered into agreements with a government bank to provide financing facilities aggregating to Saudi Riyals 50.0 million (2019: Saudi Riyals 40.0 million) to meet the working capital requirements of the Company, which were fully utilised during the year. Administrative fee is charged by government bank under the loan agreements.

The covenants of the borrowing facilities restrict the Company to utilise the loan amounts for the purpose specified in the loan agreements. The carrying values of such long-term borrowings are denominated in Saudi Riyals. The repayment of such loans as per the repayment schedule is up to 2024.

13.3 Payable to SAMA

During 2020, the Company has received interest free deposits aggregating to Saudi Riyals 133.8 million from SAMA out of which the Company in accordance with instructions from SAMA has repaid an amount of SAR 98.5 million during the year. Also see Note 28.

13.4 Contractual maturities of long-term borrowings

The contractual maturities of long-term borrowings are as follows:

	2020	**2019**
Less than 6 months	**37,617,154**	25,627,245
6 - 12 months	**45,557,351**	26,848,905
Between 1 and 2 years	**83,890,227**	52,240,705
Between 2 and 5 years	**135,380,956**	57,332,668
	302,445,688	162,049,523

Also see Note 28.

14 Employee benefit obligations

14.1 Employee benefit obligations - Defined benefit plan

The Company operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Employees' end-of-service benefit plan is unfunded plan and the benefit payment obligation are met when they fall due upon termination of employment. The most recent comprehensive actuarial valuation coincided with the year-end reporting date.

	2020	**2019**
At 1 January	**2,685,221**	1,818,128
Current service cost	**688,669**	527,843
Interest cost	**81,267**	85,524
Benefits paid	**(194,297)**	(12,057)
Remeasurements	**(248,226)**	265,783
At 31 December	**3,012,634**	2,685,221

(All amounts in Saudi Riyals unless otherwise stated)

14.2 Amounts recognised in the statement of comprehensive income

The amounts recognised in the statement of comprehensive income related to employee benefit obligations are as follows:

	2020	2019
Current service cost	**688,669**	527,843
Interest expense	**81,267**	85,524
Total amount recognised in profit or loss	**769,936**	613,367
Remeasurements		
Experience gains (losses)	**248,226**	(265,783)
Total amount recognised in other comprehensive income	**248,226**	(265,783)

14.3 Significant actuarial assumptions

	2020	2019
Discount rate	**1.8%**	2.8%
Salary growth rate	**1.8%**	2.8%
Retirement age	**60 years**	60 years

14.4 Sensitivity analysis for actuarial assumptions

	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
2020				
Discount rate	50 basis points	50 basis points	**(89,769)**	**95,688**
Salary growth rate	50 basis points	50 basis points	**95,205**	**(90,198)**
2019				
Discount rate	50 basis points	50 basis points	(97,002)	103,374
Salary growth rate	50 basis points	50 basis points	102,857	(97,462)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

(All amounts in Saudi Riyals unless otherwise stated)

14.5 Expected maturity analysis

The weighted average duration of the defined benefit obligation is 7.2 years (2019: 7.4 years). The expected maturity analysis of undiscounted employee benefit obligations is as follows:

	2020	**2019**
Less than a year	**672,918**	251,287
Between 1 - 2 years	**261,912**	284,359
Between 2 - 5 years	**1,575,847**	969,961
Over 5 years	**2,405,258**	3,542,175
	4,915,935	5,047,782

15 Accounts payable

	Note	**2020**	**2019**
Trade		**13,064,893**	6,433,443
Related parties	22	**51,565,521**	56,321,874
		64,630,414	62,755,317

16 Accrued and other liabilities

	Note	**2020**	**2019**
Advance from customers		**7,602,234**	6,724,785
Accrued expenses		**6,819,485**	3,445,403
Net servicing liability under agency agreement	26	**1,538,631**	-
VAT payable		**1,722,654**	480,323
		17,683,004	10,650,511

17 Zakat matters

17.1 The principal elements of the approximate zakat base are as follows:

	2020	**2019**
Equity at beginning of year	**114,379,280**	65,665,321
Non-current liabilities and borrowings	**216,942,274**	161,981,476
Total Financing Resources	**331,321,554**	227,646,797
Total assets	**498,608,146**	411,102,407
Zakat Assets	**148,452,810**	54,670,331
Zakat Assets / Total Assets	**30%**	13%
Approximate zakat base	**98,645,833**	30,273,541

In accordance with the regulations of the GAZT, zakat is payable at 2.577% of zakat base subject to a minimum and maximum capping / threshold of 4 times or 8 times, respectively of profit before zakat.

(All amounts in Saudi Riyals unless otherwise stated)

17.2 Provision for zakat

	2020	2019
At 1 January	**(218,129)**	-
Provision for the year	**1,434,587**	780,149
Reversal for prior years	**-**	(998,278)
	1,434,587	(218,129)
At 31 December	**1,216,458**	(218,129)

17.3 Status of final assessments

The Company has filed its zakat declarations with the General Authority of Zakat and Tax (GAZT) upto 2019.

During the year ended 31 December 2019, the Company has received a settlement notice from the GAZT relating to the treatment of non-current portion of net investment in its finance lease for the purposes of determination of zakat base. The notice prescribes the method to calculate the Company's zakat liability for the year ended 31 December 2018 and states that applying the same principles, the Company is entitled to a credit of Saudi Riyals 1.18 million for the years 2016, when the Company was provided a license from SAMA to be involved in the finance lease activities, and 2017, whereas there would be a charge of Saudi Riyals 0.18 million for the year ended 31 December 2018. Management agreed to the settlement notice and accordingly recorded a net zakat refundable of Saudi Riyals 1.0 million during 2019 in respect of prior years.

18 Share capital

At 31 December 2020 the share capital consisting of 15 million (2019: 15 million) shares of Saudi Riyals 10 each was held as follows:

Name	County of incorporation	Shareholding 2020	2019
Al Majdouie Motors Company Limited	Saudi Arabia	46.68%	46.68%
Al Majdouie Food Company Limited	Saudi Arabia	13.33%	13.33%
Arsal Operation and Maintenance L.L.C (formerly "Majd Real Estate Development Company Limited")	Saudi Arabia	13.33%	13.33%
Al Majdouie Logistics Company Limited	Saudi Arabia	13.33%	13.33%
Al Majdouie Education and Training Company Limited	Saudi Arabia	13.33%	13.33%
Total		100%	100%

19 Revenues

	Note	2020	2019
Income from finance leases		**46,328,730**	45,678,511
Income from murabaha finance		**3,634,946**	582,844
Commission income	22	**1,624,215**	1,943,462
		51,587,891	48,204,817

(All amounts in Saudi Riyals unless otherwise stated)

20 Other expenses

	Note	2020	2019
Professional fees		**1,045,219**	354,678
Software license and support		**775,422**	576,104
Bank charges		**459,248**	496,743
Advertising and marketing		**167,359**	258,364
Board of Directors fees	22	**90,000**	118,000
Other		**2,623,126**	1,581,219
		5,160,374	3,385,108

21 Finance charges

	Note	2020	2019
Finance cost on long-term borrowings	13	**5,569,381**	5,504,847
Finance charges from a related party	22	**708,059**	3,074,464
Interest charge on leases	5	**220,301**	241,976
		6,497,741	8,821,287

22 Related party transactions and balances

The Company has transactions with its shareholders and their affiliated entities (collectively "related parties").

Related parties comprise the shareholders, directors, associated companies, key management personnel. Related parties also include business entities in which certain directors or senior management have an interest (other related parties).

22.1 Significant transactions with related parties in the ordinary course of business during the year were as follows:

Nature of transaction	Relationship	2020	2019
Purchases	Shareholder	**163,774,847**	90,512,773
Purchases	Affiliate	**2,733,458**	1,125,000
Finance charges	Shareholder	**708,059**	3,074,464
Commission income on lease of motor vehicles	Shareholder	**1,589,929**	1,794,616
Lease payments	Shareholder	**445,214**	445,214
Key management personnel			
Key management compensation		**2,734,788**	2,790,725
Employee benefit obligations		**170,471**	178,383
Board of Directors fees		**90,000**	118,000

(All amounts in Saudi Riyals unless otherwise stated)

22.2 Accounts payable include the following amounts due to related parties:

	2020	2019
Al Majdouie Motors Company Limited ("Motors")- shareholder	**51,373,238**	55,876,672
Al Majdouie Holding Company Limited - ultimate parent company	**95,449**	389,532
Arsal Operation and Maintenance L.L.C (formerly "Majd Real Estate Development Company Limited") - shareholder	**47,606**	11,400
Al Majdouie Trading Establishment	**30,906**	-
Al Majdouie Logistics Company Limited	**14,028**	-
Arjaa Travel and Tourism Company	**3,185**	44,270
Al Majdouie Manufacturing Company	**1,109**	-
	51,565,521	56,321,874

Balance payable to Motors outstanding for more than 30 days from the date of the respective underlying invoice bears financial charges at prevailing market rates. Also see Note 1.

22.3 Advances to a related party

Advances to a related party at 31 December 2020 and 2019, represent advances given to Al Majdouie Manufacturing Company.

22.4 Loan from a shareholder

	2020	2019
Motors	-	65,000,000
Accrued finance cost	-	206,298
	-	65,206,298
Loans from a shareholder is presented as follows:		
Loan from a shareholder - current portion	-	13,206,298
Loan from a shareholder - non-current portion	-	52,000,000
	-	65,206,298

The movement in loan from a shareholder is as follows:

	2020	2019
At 1 Janauary	**65,206,298**	-
Transfer from balance payable to Motors	-	65,000,000
Finance charges for the year	**708,059**	206,298
Less: repayment of principal	**(65,000,000)**	-
Less: repayment of finance charges	**(914,357)**	-
At 31 December	-	65,206,298

During 2020, the Company has settled the entire outstanding balance of loan from a shareholder before its contractual maturity.

(All amounts in Saudi Riyals unless otherwise stated)

The contractual maturities of loan from a shareholder are as follows:

	2020	2019
Less than 6 months	-	7,802,311
6 - 12 months	-	7,580,197
Between 1 and 2 years	-	14,777,597
Between 2 and 5 years	-	41,321,993
	-	71,482,098

23 Fair values of financial assets and financial liabilities

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: quoted market prices (unadjusted) in active markets for identical financial assets or liabilities.
Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: inputs that are unobservable. This is the case for unlisted equity securities.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

All financial assets and financial liabilities of the Company are categorized as held at amortised cost except for financial assets at fair value through other comprehensive income. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

The breakdown of these financial assets and liabilities is as follows:

	Note	2020	2019
Financial assets			
FVTOCI - Level 3			
Financial asset at fair value through other comprehensive income	10	**892,850**	892,850
Financial assets at amortised cost			
Net investment in finance leases	8	**244,046,390**	308,226,189
Net investment in murabaha finance	9	**84,269,913**	21,249,791
Cash and cash equivalents	12	**148,452,810**	54,670,331
Other receivables		**939,034**	2,909,228
		478,600,997	387,948,389
Financial liabilities			
Liabilities at amortised cost			
Long-term borrowings	13	**288,221,571**	151,467,740
Accounts payable	15	**64,630,414**	62,755,317
Loan from a shareholder	22	**-**	65,206,298
Accrued and other liabilities		**5,073,399**	2,097,481
Lease liabilities	5	**3,692,535**	4,176,169
		361,617,919	285,703,005
Net financial assets		**116,983,078**	102,245,384

24 Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and commission rate risk), credit risk and liquidity risk. The Company's overall risk management program, which is carried out by senior management, focuses on having cost effective funding as well as managing financial risks to minimize earning volatility and provide maximum return to shareholders. The risks faced by the Company and their respective mitigating strategies are summarized below.

24.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause a financial loss to the Company. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

The management analyses credit risk into the following categories:

Net investment in finance leases and murabaha finance

Investment in finance lease and murabaha finance receivables is generally exposed to significant credit risk. Therefore, the Company has established procedures to manage credit exposure including evaluation of customers' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral and personal guarantees whenever considered necessary. The Company also follows a credit classification mechanism as a tool to manage the quality of credit risk of the lease and murabaha portfolio and grades the individual customers based on both subjectivity and payment history taking into consideration factors such as customer credit standing, financial strength, security and quality of management.

The Company monitors customers' grading on a regular basis. The management believes that adequate provision has been accounted for, where required to address the credit risk. Further details related to net investment in finance leases and murabaha finance and related risk are presented in Note 3.7, Note 8 and Note 9 to these financial statements.

Cash and cash equivalents and other receivables

These are placed with banks having good credit ratings, and therefore are not subject to significant credit risk. Other receivables are not exposed to significant credit risk.

24.2 Commission rate risk

Commission rate risk is the uncertainty of future earnings and expenses resulting from fluctuations in commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to commission rate adjustment within a specified period. The most important source of such risk is the Company's leasing activities and long-term borrowings. As at the statement of financial position date, the Company has commission bearing financial assets of Saudi Riyals 328.3 million (31 December 2019: Saudi Riyals 329.5 million). However, the commission rates have been agreed with the respective customers. Further, the Company also had variable commission bearing financial liabilities of Saudi Riyals 288.2 million (31 December 2019: Saudi Riyals 216.7 million), and had the commission rate varied by 1% with all the other variables held constant, total comprehensive income /loss for the year would have been approximately Saudi Riyals 2.2 million (31 December 2019: Saudi Riyals 1.1 million) higher / lower, as a result of lower / higher finance cost on floating rate borrowings.

24.3 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's financial assets and liabilities are not exposed to fair value and cash flow interest rate risks.

24.4 Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company's financial instruments are not exposed to price risk.

24.5 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company has no significant exposure to currency risk as it mainly deals in Saudi Riyals which is also the functional currency of the Company.

24.6 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters. In addition, the Company has access to credit facilities.

Cash flow forecasting is performed by the management which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance and compliance with internal ratio targets.

(All amounts in Saudi Riyals unless otherwise stated)

As at date of statement of financial position, the contractual maturities of the Company's financial assets and financial liabilities are as follows:

	Up to one year	One to three years	More than three years	Total
Financial assets - commission bearing:				
Gross investment in finance leases	124,106,593	152,232,984	42,668,044	**319,007,621**
Gross investment in murabaha finance	44,020,778	53,027,154	1,730,976	**98,778,908**
	168,127,371	205,260,138	44,399,020	**417,786,529**
Financial assets - non commission bearing:				
Cash and cash equivalents	148,452,810	-	-	**148,452,810**
Other receivables	939,034	-	-	**939,034**
2020	**317,519,215**	**205,260,138**	**44,399,020**	**567,178,373**
2019	210,297,405	205,898,837	76,779,402	492,975,644
Financial liabilities - commission bearing:				
Lease liabilities	792,578	1,355,110	2,385,497	**4,533,185**
Long-term borrowings	83,174,505	156,495,919	62,775,264	**302,445,688**
	83,967,083	**157,851,029**	**65,160,761**	**306,978,873**
Financial liabilities - non commission bearing:				
Accounts payable	64,630,414	-	-	**64,630,414**
Accrued and other liabilities	5,073,399	-	-	**5,073,399**
2020	**153,670,896**	**157,851,029**	**65,160,761**	**376,682,686**
2019	133,550,669	119,264,611	50,711,492	303,526,772
Net financial assets (liabilities)				
Commission bearing	84,160,288	47,409,109	(20,761,741)	**110,807,656**
Non-commission bearing	79,688,031	-	-	**79,688,031**
2020	**163,848,319**	**47,409,109**	**(20,761,741)**	**190,495,687**
2019	76,746,736	86,634,226	26,067,910	189,448,872

25 Finance lease receivables - purchase and agency agreement

In accordance with the terms of purchase and agency agreement, the Company has sold certain finance lease receivables to a financial institution. The Company continues to manage these derecognized finance lease receivables as an agent in accordance with the terms of agreement entered into with such financial institution (see Note 8). The Company is continuing to manage these sold receivables for an agreed fee which is netted-off with related cost of servicing these finance lease receivables sold to such financial institution.

(All amounts in Saudi Riyals unless otherwise stated)

The outstanding position of such off-statement of financial position finance lease receivables is as follows:

	2020	**2019**
Finance lease receivables sold under securitization agreements	**76,324,782**	-

Maturity profile of finance lease receivables sold is as follows:

	2020	**2019**
Less than one year	**11,414,129**	-
One to five year	**64,910,653**	-
	76,324,782	-

26 Net servicing liability under agency agreement

Under the purchase and agency agreement, the Company has been appointed by a financial institution to service the receivables sold to such financial institution against a servicing fee. The Company initially recognizes either a net servicing asset or a net servicing liability for that servicing contract at its fair value.

The fair value of net servicing asset / liability is determined based on the present value of estimated future cash flows related to contractually specified servicing fees less servicing costs. The primary determinants of the fair value of net servicing asset / liability are discount rates, estimates of servicing costs and the fixed servicing fees. The management assesses the cost of servicing at the end of each reporting period. Variations in one or a combination of these assumptions could affect the estimated values of a net servicing liability.

27 Capital risk management

The Company's objective when managing capital is to safeguard Company's ability to continue as a going concern in order to provide returns for the shareholders and benefits to other stakeholders and to maintain optimal capital structure to reduce the cost of capital. Borrowings represent long-term borrowings, loan from a shareholder and lease liabilities. The management analyses the gearing ratio as follows:

	2020	**2019**
Equity	**120,151,530**	114,379,280
Borrowings	**291,914,106**	220,850,207
Total	**412,065,636**	335,229,487
Gearing ratio (borrowing as a percentage of total)	**70.84%**	65.88%

28 Impact of COVID-19 on expected credit losses ("ECL") and SAMA and other public authorities' programs

During March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic. The oil prices have shown some recovery in late Q2 2020 as oil producing countries cut back production coupled with increasing of demand as countries emerged from lockdowns. The Company continues to evaluate the current situation through analysis of expected movements of oil prices and its impact on key performance indicators in addition to other risk management practices to manage the impact COVID-19 outbreak has had on its operations and financial performance. The steps taken by management also include review of credit exposure concentrations, customer credit ratings and appropriately restructuring loans, where required. These also take into consideration the impacts of government and SAMA support relief programmes.

These current events and the prevailing economic condition require the Company to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These would primarily revolve around either adjusting macroeconomic factors used by the Company in estimation of expected credit losses and revisions to the scenario probabilities currently being used by the Company in ECL estimation. The adjustments to macroeconomic factors and scenario weightings resulted in an additional ECL of Saudi Riyals 1.1 million for the Company. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgemental and the Company will continue to reassess its position and the related impact on a regular basis.

At this point in time, it is difficult to ascertain the specific effects the health crisis and government and SAMA support measures, such as the repayment holidays and other mitigating packages, will have. The Company has therefore concluded that it was too early for any potential credit impairment to be reflected through application of the staging criteria and focused on the macroeconomic model underpinning the probability of default ("PD") and loss given default ("LGD") determinations. The Company will continue to individually assess significant corporate exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

SAMA and other public authorities' support programs and initiatives

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

As part of the deferred payments program under the PSFSP, the Company is required to defer payments for six months on lending facilities to those companies that qualify as MSMEs. Further, to give effect to the guidance issued by SAMA during April 2020, the Company has also deferred MSME customers classified as Stage 2 and some other Stage 1 customers which have met the definition of MSME during Q2 2020. Similarly, the Company has deferred payments for twelve months on certain lending facilities to customers falling under government bank loan programs. As a compensation, the Company was allowed deferment of repayments on certain of its government bank loans for a period of 12 months. Also, the Company was allowed deferment of repayments on certain of its Murabaha loans for a period of 6 months under the SAMA program.

The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company has affected the payment reliefs by extending the tenure of the applicable financing granted with no additional costs to be borne by its customers. The accounting impact of these changes in terms of the credit facilities and restructuring of long-term borrowings has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This has resulted in the Company recognizing day 1 modification losses of Saudi Riyals 9.4 million with respect to changes in terms of credit facilities (i.e. finance lease and murabaha finance receivables). In the absence of other factors, participation in the PSFSP by any customer is not considered a significant increase in credit risk.

In order to compensate the related cost that the Company is expected to incur under the SAMA program, the Company has received Saudi Riyals 116.0 million of interest free deposit from SAMA repayable in 36 equal instalments starting from 4 November 2020 and the interest free portion has been considered a government grant. During Q3 2020, the Company in accordance with instructions from SAMA has repaid an amount of SAR 98.5 million from the initial interest free deposit received from SAMA and the remaining amount is repayable in 36 equal monthly instalments commencing November 2020. The net income recognised in profit or loss on interest free deposit from SAMA after such repayment amounted to Saudi Riyals 1.3 million. Management has exercised certain judgements in the recognition and measurement of this grant income.

Phase 2 of PSFSP

During September 2020, SAMA has instructed the Company to defer the periodic instalments as part of the deferred payments program under the PSFSP for the eligible customers for further three months. This has resulted in further modification loss of Saudi Riyals 2.9 million. In order to compensate the related cost that the Company is expected to incur under such programs, the Company has received Saudi Riyals 9.2 million of interest free deposit from SAMA repayable in 17 monthly instalments starting from February 2021 and the interest free portion has been considered as government grant. This resulted in a total income of Saudi Riyals 0.3 million recognised on day 1 immediately in profit or loss. Management has exercised certain judgements in the recognition and measurement of this grant income.

Also, the Company was allowed deferment of repayments on certain of its Murabaha loans for a further period of 3 months under the SAMA program.

Phase 3 of PSFSP

During December 2020, SAMA has instructed the Company to defer the periodic instalments as part of the deferred payments program under the PSFSP for the eligible customers for further three months. This has resulted in further modification loss of Saudi Riyals 2.4 million. In order to compensate the related cost that the Company is expected to incur under such programs, the Company has received Saudi Riyals 8.6 million of interest free deposit from SAMA repayable in 18 monthly instalments starting from April 2021 and the interest free portion has been considered as government grant. This resulted in a total income of Saudi Riyals 0.5 million recognised on day 1 immediately in profit or loss. Management has exercised certain judgements in the recognition and measurement of this grant income.

Also, the Company was allowed deferment of repayments on certain of its Murabaha loans for a further period of 3 months under the SAMA program.

Cumulative financial impact

Management has determined based on the communications from SAMA, that the government grants primarily relate to compensation for the modification losses incurred on the deferral of payments. The benefits of the subsidized funding rate have been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income.

The cumulative day 1 modification losses recognised in profit or loss, as per the requirements of IFRS 9 due to changes in terms of finance lease and murabaha finance receivables, amounted to Saudi Riyals 14.7 million and the cumulative grant income amounted to Saudi Riyals 2.1 million. The modification losses have been presented net of grant income in profit or loss.

During the year ended 31 December 2020, Saudi Riyals 10.8 million has been recognised as part of finance lease revenue in profit or loss relating to unwinding of modification losses.

Deferment of periodic instalments for twelve months, allowed to the Company in respect of long-term borrowings, aggregating to Saudi Riyals 85.4 million has resulted in cumulative modification gains of Saudi Riyals 2.2 million which have been presented separately in profit or loss.

29 Date of authorization of issue

The accompanying financial statements were authorized for issue by the Board of Directors on 2 March 2021.