TAAJEER FINANCE LEASE COMPANY
(A Saudi Closed Joint Stock Company)

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

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS' OF TAAJEER FINANCE LEASE COMPANY

(A Saudi Closed Joint Stock Company)

Opinion

We have audited the financial statements of Taajeer Finance Lease Company (A Saudi Closed Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in shareholders' 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 that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

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

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 provisions of Companies' Regulation 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, i.e. the Board of Directors, are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE SHAREHOLDERS' OF TAAJEER FINANCE LEASE COMPANY
(A Saudi Closed Joint Stock Company)

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with management 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.

Baker Tilly MKM & Co.
Certified Public Accountants

Ayad Alseraihi
License No. 405
Jeddah on 17 Rajab 1442H
Corresponding to 1st March 2021

بيكر تيلي م ك م وشركاه
محاسبون قانونيون
CPA
ترخيص ٣٢٣/١١/٤٧٩ License 323/11/479
BAKER TILLY
M K M & CO.

TAAJEER FINANCE LEASE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	**31 December 2020**	31 December 2019
		SR	*SR*
ASSETS			
Bank balances		**124,411,290**	96,029,812
Prepayments and other receivables	**4**	**24,040,125**	11,965,828
Net investment in finance lease	**5**	**551,879,930**	422,668,096
Net deferred consideration receivable	**5**	**30,369,692**	20,362,584
Vehicles available for lease		**3,391,971**	887,923
Investment designated at FVTOCI	**6**	**892,850**	892,850
Property and equipment	**7**	**4,166,437**	3,891,750
Intangibles	**8**	**3,074,990**	3,881,351
TOTAL ASSETS		**742,227,285**	560,580,194
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Trade payables	**9**	**134,462,869**	93,319,571
Due to related parties	**20**	**19,916,736**	28,560,472
Zakat payable	**10**	**4,652,343**	4,212,709
Net servicing liability	**5**	**18,679,016**	15,502,579
Long-term loans	**11**	**323,819,359**	202,646,815
Employee termination benefits	**13**	**2,482,879**	1,559,794
TOTAL LIABILITIES		**504,013,202**	345,801,940
SHAREHOLDERS' EQUITY			
Share capital	**14**	**200,000,000**	200,000,000
Statutory reserve		**6,248,729**	3,883,191
Retained earnings		**31,965,354**	10,895,063
TOTAL SHAREHOLDERS' EQUITY		**238,214,083**	214,778,254
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**742,227,285**	560,580,194

The accompanying notes form an integral part of these financial statements

TAAJEER FINANCE LEASE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020	2019
		SR	*SR*
Finance income	15	**46,794,030**	38,569,836
Finance costs		**(12,244,441)**	(10,296,783)
Net finance income		**34,549,589**	28,273,053
Net gain on securitization of receivables	5	**37,129,643**	45,911,092
Net change in deferred consideration receivables	5	**638,333**	(113,693)
Net change in net servicing liability	5	**10,286,879**	4,924,008
Government grant income	11	**2,848,459**	1,238,534
Other operating income	16	**18,341,304**	13,907,731
Selling and marketing expenses	17	**(16,504,960)**	(13,124,820)
General and administrative expenses	18	**(30,685,182)**	(25,282,750)
Impairment of net investment in finance lease	5	**(19,307,480)**	(10,753,639)
Other operating expenses		**(8,857,963)**	(2,852,430)
Net operating profit		**28,438,622**	**42,127,086**
Zakat	10	**(4,783,246)**	(4,705,084)
Profit for the year		**23,655,376**	**37,422,002**
OCI that will not be reclassified to profit or loss in subsequent years:			
Remeasurements of defined benefit liability	13	**(219,547)**	(157,890)
Other comprehensive loss for the year		**(219,547)**	**(157,890)**
Total comprehensive income for the year		**23,435,829**	37,264,112

The accompanying notes form an integral part of these financial statements

TAAJEER FINANCE LEASE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Capital	*Statutory reserve*	*Retained earnings / (Accumulated losses)*	*Total equity*
	SR	*SR*	*SR*	*SR*
For the year ended 31 December 2020:				
As at 1 January 2020	**200,000,000**	**3,883,191**	**10,895,063**	**214,778,254**
Profit for the year	**-**	**-**	**23,655,376**	**23,655,376**
Other comprehensive loss	**-**	**-**	**(219,547)**	**(219,547)**
Total comprehensive income	**-**	**-**	**23,435,829**	**23,435,829**
Transfer to statutory reserve	**-**	**2,365,538**	**(2,365,538)**	**-**
As at 31 December 2020	**200,000,000**	**6,248,729**	**31,965,354**	**238,214,083**
For the year ended 31 December 2019:				
As at 1 January 2019	200,000,000	140,991	(22,626,849)	177,514,142
Profit for the year	-	-	37,422,002	37,422,002
Other comprehensive loss	-	-	(157,890)	(157,890)
Total comprehensive income	-	-	37,264,112	37,264,112
Transfer to statutory reserve	-	3,742,200	(3,742,200)	-
As at 31 December 2019	200,000,000	3,883,191	10,895,063	214,778,254

TAAJEER FINANCE LEASE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020	2019
		SR	*SR*
OPERATING ACTIVITIES			
Profit for the year		**23,655,376**	37,422,002
Adjustments for non-cash items:			
Zakat expense	**10**	**4,783,246**	4,705,084
Impairment of net investment in finance lease	**5**	**19,307,480**	10,753,639
Finance costs		**12,244,441**	10,296,783
Depreciation and amortization	**7&8**	**2,095,726**	1,798,956
Employee termination benefits incurred	**13**	**766,066**	599,176
Government grant income		**(2,848,459)**	(1,238,534)
Net gain on securitization of receivables		**(37,129,643)**	(45,911,092)
Net change in deferred consideration receivables		**(638,333)**	113,693
Net change in net servicing liability		**(10,286,879)**	(4,924,008)
		11,949,021	13,615,699
Changes in working capital:			
Prepayments and other receivables		**(12,074,297)**	(4,063,154)
Net investment in finance lease		**(107,295,130)**	34,317,614
Due from related parties		**-**	5,818,095
Vehicles available for lease		**(2,504,048)**	707,101
Trade payables		**38,243,870**	52,991,358
Due to related parties		**(8,643,736)**	(99,301,028)
Cash (used in) / generated from operations		**(80,324,320)**	4,085,685
Finance cost paid		**(9,345,013)**	(8,753,200)
Employee termination benefits paid	**13**	**(62,528)**	(118,224)
Zakat paid	**10**	**(4,343,612)**	(492,375)
Net cash flows used in operating activities		**(94,075,473)**	(5,278,114)
INVESTING ACTIVITIES			
Purchase of property and equipment	**7**	**(1,470,052)**	(2,811,958)
Purchase of intangibles	**8**	**(94,000)**	(1,078,053)
Net cash flows used in investing activities		**(1,564,052)**	(3,890,011)
FINANCING ACTIVITIES			
Proceeds from long-term loans		**178,089,352**	135,699,479
Repayments of long-term loans		**(54,068,349)**	(46,702,388)
Net cash flows generated from financing activities		**124,021,003**	88,997,091
Net change in cash and cash equivalents		**28,381,478**	79,828,966
Cash and cash equivalents at the beginning of the year		**96,029,812**	16,200,846
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**124,411,290**	96,029,812

The accompanying notes form an integral part of these financial statements

1 COMPANY INFORMATION

Taajeer Finance Lease Company (the "Company") is a Saudi Closed Joint Stock Company, registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030289565 issued on 17 Sha'ban 1437H (corresponding to 24 May 2016).

The Company's head office is based in Jeddah. The principal activity of the Company is to engage in the following business activities in the Kingdom of Saudi Arabia:

a) Small and Medium Enterprises (SME) Financing
b) Finance leasing
c) Consumer Finance Murabaha

On 29 Safar 1438H (corresponding to 29 November 2016), the Company received a license from the Saudi Central Bank (SAMA) to undertake both finance leasing and small and medium enterprises (SME) financing in the Kingdom of Saudi Arabia under license number 46/AU/201611.

On 13 Jumada I 1441H (corresponding to 8 January 2020), the Company obtained the approval from SAMA to add consumer financing murabaha as a new product for individuals.

The Company is a subsidiary of Al Ahdaf Al Mumaizah Company Limited (the "Parent Company"). The ultimate parent of the Company is Taajeer Group ("Ultimate Parent"). Saudi shareholders own the Company, the Parent and the Ultimate Parent of the Company.

As at 31 December 2020, the Company operates through 6 branches (31 December 2019: 6 branches). The accompanying financial statements include the assets, liabilities and results of the Company and these branches as listed below:

CR number	Location
1010468134	Riyadh
4030293321	Jeddah
2252067592	Al Mubarraz
2050111740	Dammam
4031098948	Mecca
5850070587	Abha

2 BASIS OF PREPARATION

The financial statements of the Company for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted in the Kingdom of Saudi Arabia (KSA), and other standards and pronouncements adopted by the Saudi Organization for Certified Public Accountants (‘SOCPA”) (referred to as “IFRS as endorsed in KSA”). Details of the Company’s significant accounting policies are disclosed in note 23.

The financial statements have been prepared on a historical cost convention using the accrual basis of accounting, except for financial instruments measured at fair value and as indicated otherwise. The financial statements are presented in Saudi Riyals which is also the functional currency of the Company and all values are rounded to the nearest Riyal (SR), except when otherwise indicated.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risk and uncertainties' includes:

-	Impact of COVID - 19 disclosures	Note 25
-	Financial instruments risk management	Note 22
-	Sensitivity analysis disclosures	Note 13

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.1 Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements.

Derecognition of securitized receivables

As explained in note 5, management exercises professional judgment in determining whether the purchase and agency agreement transfers substantially all the risks and rewards of ownership of securitized lease receivables to the bank and whether the Company lost control on such receivables to determine whether such receivables should be derecognized accordingly.

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 on the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as prepayment risk, liquidity risk, credit risk and volatility.

Determination of net servicing liability

As explained in note 5, under the purchase and agency agreements, the Company has been appointed by the banks to service the receivables purchased by the banks. Assumptions used to calculate the servicing liability are based on estimates of costs to be incurred by the Company over the life of the purchase and agency agreements.

Uncertain zakat positions

The Company's current zakat payable relates to management's assessment of the amount of zakat payable on open zakat positions where the liabilities remain to be agreed with the General Authority of Zakat and Tax (GAZT). Due to the uncertainty associated with such zakat items, it is possible that, on finalization of open zakat assessments at a future date, the final outcome may differ significantly. Note 10 describes the status of zakat and tax assessments.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.2 Estimates and assumptions (continued)

Useful lives of property and equipment

The management determines the estimated useful lives of its property and equipment for calculating depreciation. 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 charge would be adjusted where the management believes the useful lives differ from previous estimates.

Determination of net deferred consideration receivable

As also explained in note 5**,** in order to calculate the net deferred consideration receivable under the purchase and agency agreement, the Company uses assumptions to calculate the allowance for delinquent receivables and discounts for premature terminations of contracts based on historical trends which are updated periodically (at least once in a year or more frequently when needed) based on a change in circumstances which indicate that the historical rates may not be appropriate.

Impairment of lease receivables

In the preparation of the financial statements management has made certain additional assumptions in the measurement of Expected Credit Loss (ECL). However, in view of the current uncertainty, any future change in the assumptions and key estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments (refer to note 25).

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

The Company’s Expected Credit Loss (ECL) calculation is an output of a complex model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

- The Company’s internal credit grading model, which assigns Probabilities of Default (PDs) to the individual pool of receivables;
- 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 Expected Credit Loss (LTECL) basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels, GDP and the effect on PDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model.

Actuarial valuation of employee termination benefits

The cost of employee termination benefits (“employee benefits”) under defined unfunded benefit plan is determined using an actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation and its long-term nature, a defined unfunded benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently, if required.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.2 Estimates and assumptions (continued)

Useful life of intangible assets

The Company's management determines the estimated useful lives of its intangible assets for calculating amortisation. This estimate is determined after considering the expected benefit obtained from the usage of the intangible assets. Management reviews the carrying value and useful lives annually and future amortisation charge would be adjusted where the management believes the useful lives differ from previous estimates.

4 PREPAYMENTS AND OTHER RECEIVABLES

	2020	2019
	SR	*SR*
Prepaid expenses	**11,595,490**	7,421,058
Receivables against insurance claims	**2,972,106**	2,437,135
Advance payment against VAT (Note 10)	**1,223,116**	1,223,116
Advances to suppliers	**6,417,159**	496,451
Advances to employees	**91,086**	144,243
Others	**1,741,168**	243,825
	24,040,125	11,965,828

5 NET INVESTMENT IN FINANCE LEASE

	2020	2019
	SR	*SR*
Gross investment in finance lease	**812,086,492**	645,689,690
Less: unearned finance income	**(223,354,633)**	(193,771,232)
	588,731,859	451,918,458
Less: allowance for expected credit losses	**(36,851,929)**	(29,250,362)
Net investment in finance lease	**551,879,930**	422,668,096

5.1 Movement in allowance for expected credit losses

	2020	2019
	SR	*SR*
At the beginning of the year	**29,250,362**	22,831,624
Write offs	**(9,543,287)**	-
Allowance related to derecognized receivables	**(2,162,626)**	(4,334,901)
Provided during the year	**19,307,480**	10,753,639
	36,851,929	29,250,362

5.2 Ageing of gross finance lease receivables

	2020	2019
	SR	*SR*
Not due	**789,899,386**	621,766,396
1 - 3 months over due	**11,122,996**	6,369,264
4 - 6 months over due	**4,877,425**	5,496,270
7 - 12 months over due	**6,072,763**	6,367,117
Over 12 months over due	**113,922**	5,690,643
	812,086,492	645,689,690

5 NET INVESTMENT IN FINANCE LEASE (continued)

5.3 Portfolio analysis

The Company finances the sale of assets to its customers through Ijarah and Murabaha. Under Ijarah, the legal ownership of the financed asset is retained by the Company while under Murabaha legal ownership is transferred to the customer. The net investment portfolio of the Company as of 31 December is as follows:

	31 December 2020			
	Gross investment	***Unearned finance income***	***Allowance for expected credit loss***	***Net investment***
	SR	***SR***	***SR***	***SR***
Ijarah	**790,850,088**	**(220,391,383)**	**(36,376,923)**	**534,081,782**
Murabaha	**21,236,404**	**(2,963,250)**	**(475,006)**	**17,798,148**
	812,086,492	**(223,354,633)**	**(36,851,929)**	**551,879,930**

	31 December 2019			
	Gross investment	*Unearned finance income*	*Allowance for expected credit loss*	*Net investment*
	SR	*SR*	*SR*	*SR*
Ijarah	638,554,122	(192,815,031)	(28,600,443)	417,138,648
Murabaha	7,135,568	(956,201)	(649,919)	5,529,448
	645,689,690	(193,771,232)	(29,250,362)	422,668,096

5.4 Maturity analysis of net investment in finance lease is as follows:

	31 December 2020			
		Non-current		
	Within 1 year	***1 to 3 years***	***Over 3 year***	***Total***
	SR	***SR***	***SR***	***SR***
Gross investment in finance lease	**287,326,903**	**305,286,042**	**219,473,547**	**812,086,492**
Less: unearned finance income	**(88,981,980)**	**(98,431,218)**	**(35,941,435)**	**(223,354,633)**
Net investment in finance lease	**198,344,923**	**206,854,824**	**183,532,112**	**588,731,859**

	31 December 2019			
		Non-current		
	Within 1 year	*1 to 3 years*	*Over 3 year*	*Total*
	SR	*SR*	*SR*	*SR*
Gross investment in finance lease	205,648,091	302,477,032	137,564,567	645,689,690
Less: unearned finance income	(72,352,559)	(92,634,249)	(28,784,424)	(193,771,232)
Net investment in finance lease	133,295,532	209,842,783	108,780,143	451,918,458

5 NET INVESTMENT IN FINANCE LEASE (continued)

5.5 Securitized receivables

The Company has entered into purchase and service agreements (the 'Agreements') with local banks in respect of securitization of certain finance leases (the 'receivables').

Under the terms of the purchase and service agreements, the Company first sells the eligible receivables to banks and then manages them on behalf of the banks as an agent for a monthly fee as per the terms of the Agreements.

During the year ended 31 December 2020, the Company sold SR 153.48 million (2019: SR 236.83 million) of its net receivables and the total amount received from the banks in respect of such sale was SR 206.25 million (2019: SR 312.86 million). Upon sale, the Company derecognises the receivables from its books and recognises the difference as either gain or loss on derecognition of receivables.

The following are the significant terms of the Agreement:

a) The Company continues to manage the sold receivables on behalf of the Banks for a fee (agency fee). The total settlement of net receivables to be made to banks (as per the agreed cash flows), as an agent under purchase and agency arrangements amount to SR 457.48 million as at 31 December 2020 (2019: SR 321.7 million). The maturity analysis of derecognized net receivables is as follows:

	Within 1 year	*1 to 3 years*	*Over 3 year*	*Total*
	SR	*SR*	*SR*	*SR*
31 December 2020	**54,304,331**	**159,942,536**	**68,570,168**	**282,817,035**
31 December 2019	39,271,374	91,122,538	74,228,999	204,622,911

b) The agreements are supported by a "cash flow statement" which stipulates the principal amount and the monthly receivables falling due. Under the terms of the agreements, the Company, in the capacity of an agent, settles to the bank a monthly amount based on the cash flow statement. The amount of the next month's repayment is recognized as a liability and included in 'payable under purchase and agency agreement' (see note 9).

c) A reserve is maintained, which is to be distributed at the end of the term of the agreement after deducting the actual defaults and discounts due to premature terminations. The balance in the reserve account after deducting the actual defaults and discounts shall be retained by the Company as deferred consideration on sale of receivables. Any shortfall in the reserve account is to be borne by the Bank.

During the year ended 31 December 2020, the Company recognized a net gain amounting to SR 37.1 million (2019: SR 45.9 million) on derecognition of receivables sold to the banks under the Agreement.

The present value of deferred consideration receivable is calculated by deducting the present value of expected defaults and discounts to be incurred over the life of the agreement from the present value of reserve amount to be received per the cash flow statement. This represents the net deferred consideration receivable by the Company under the Agreements calculated as follows:

	2020	2019
	SR	*SR*
Present value of deferred consideration receivable	**39,591,683**	25,974,782
Less: allowance for expected defaults	**(9,221,991)**	(5,612,198)
Net deferred consideration receivable	**30,369,692**	20,362,584

5 NET INVESTMENT IN FINANCE LEASE (continued)

5.5 Securitized receivables (continued)

The Company's net servicing assets and related liabilities are calculated separately for each agreement by calculating the present value of servicing assets, as per the terms of the agreement and by estimating the present value of servicing liability and related provisions. The net amount is classified as a net servicing asset or a net servicing liability on the statement of financial position. This has been presented as follows:

	2020	2019
	SR	*SR*
Present value of servicing asset	**14,789,769**	9,714,404.00
Less: Present value of servicing liability	**(33,468,785)**	(25,216,983)
Net servicing liability	**(18,679,016)**	(15,502,579)

The present value of net deferred consideration receivable and the present value of net servicing liability is calculated by using a discount rate ranging from 4.95% to 7.58% (2019: 6.09% to 7.58%).

6 INVESTMENT DESIGNATED AT FVTOCI

It represents the capital contribution in the Saudi Finance Leasing Contract Registry Company "SIJIL" established under article 12 of the implementation regulations of the finance companies control law. It requires all finance companies operating in the Kingdom of Saudi Arabia to establish a joint stock company, after the approval of SAMA, for the purpose of establishing a database of finance lease contracts and enabling secure access to the data in the contracts register. The Company can only sell this investment with prior approval of SAMA.

The Company subscribed 2.38% of paid up capital amounting to SR 892,850 on 14 December 2017 (corresponding to 26 Rabi I 1439H). The management believe that the cost approximate the fair value.

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

7 PROPERTY AND EQUIPMENT

	Leasehold improvement	*Furniture & fixture*	*Computer equipment*	*Office equipment*	*Total*
	SR	***SR***	***SR***	***SR***	***SR***
Cost:					
At 1 January 2019	884,541	748,691	751,899	183,652	2,568,783
Additions	210,397	108,670	2,422,899	69,992	2,811,958
At 31 December 2019	1,094,938	857,361	3,174,798	253,644	5,380,741
Additions	**17,683**	**93,554**	**1,073,090**	**285,725**	**1,470,052**
At 31 December 2020	**1,112,621**	**950,915**	**4,247,888**	**539,369**	**6,850,793**
Accumulated depreciation:					
At 1 January 2019	155,582	94,360	236,925	24,288	511,155
Charge for the year	273,735	83,397	586,708	33,996	977,836
At 31 December 2019	429,317	177,757	823,633	58,284	1,488,991
Charge for the year	**271,963**	**92,525**	**758,384**	**72,493**	**1,195,365**
At 31 December 2020	**701,280**	**270,282**	**1,582,017**	**130,777**	**2,684,356**
Net book values:					
31 December 2020	**411,341**	**680,633**	**2,665,871**	**408,592**	**4,166,437**
31 December 2019	665,621	679,604	2,351,165	195,360	3,891,750

8 INTANGIBLES

	2020	2019
	SR	*SR*
Cost:		
At 1 January	**6,286,864**	5,208,811
Additions	**94,000**	1,078,053
At 31 December	**6,380,864**	6,286,864
Accumulated amortization:		
At 1 January	**2,405,513**	1,584,393
Charge for the year	**900,361**	821,120
At 31 December	**3,305,874**	2,405,513
Net book value	**3,074,990**	3,881,351

9 TRADE PAYABLES

	2020	2019
	SR	*SR*
Payables to suppliers of vehicles	**66,336,484**	60,844,412
Payable under purchase and agency agreement (Note 4)	**48,294,455**	20,412,594
Accrued expenses	**8,497,045**	6,032,509
Advance from customers	**4,832,335**	3,409,295
Other payables	**6,502,550**	2,620,761
	134,462,869	93,319,571

10 ZAKAT PAYABLE

Basis for Zakat:

The Company is subject to the Regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia. Up to 31 December 2018 following previous regulations, no provision for zakat was made in the financial statements of the Company and any Zakat of the Company was being considered in the books of the Ultimate Parent.

On 7 Rajab 1440H, corresponding to 14 March 2019, new Zakat regulations were issued. The new regulations specified new basis for calculating Zakat for financing institutions and required them to file their Zakat separately from non-financing institutions. Accordingly, the Company started recognizing zakat charges from 1 January 2019.

Zakat charged to the statement of profit or loss:

	2020	2019
	SR	*SR*
Current zakat charges	**4,783,246**	4,212,709
Adjustments in respect of zakat of previous years	**-**	492,375
	4,783,246	4,705,084

The movement in the zakat payable is as follows:

	2020	2019
	SR	*SR*
At 1 January	**4,212,709**	-
Charge for the year	**4,783,246**	4,705,084
Payments	**(4,343,612)**	(492,375)
31 December	**4,652,343**	4,212,709

Status of certificates and assessments:

In accordance with the final zakat settlement agreement with the General Authority of Zakat and Tax (GAZT), Taajeer Finance has settled the zakat liability agreed and finalized the years up to 2018. The zakat return for the year 2019 is still under review by GAZT.

The GAZT has performed a review assessment of Taajeer's VAT return for the month of January 2019 claiming for additional VAT liability along with related penalty amounting to SR 1.2 million. The Company has filed an appeal against the GAZT assessment and management expect a favourable outcome.

11 LONG-TERM LOANS

The long-term loans comprise the following:

	2020	2019
	SR	*SR*
Commercial loans (see note (a) below)	**276,073,508**	186,177,905
Governmental loans (see note (b) below)	**47,745,851**	16,468,910
	323,819,359	202,646,815

a) Commercial loans

Commercial loans were obtained from local financial institutions to finance working capital requirements. These loans carry commercial profit rate. The loans are guaranteed with corporate guarantees and assignment of net investments in finance lease.

b) Governmental loan

The Company has obtained loans at below-market rate of interest from governmental bodies under a scheme to support small and medium sized entities. The Company recognized the loan initially at its fair value using a discount factor of 5% - 5.14% and recognized an unearned government grant being the difference between the amount received and the fair value of the loan. The Company earns the government grant on its utilization of funds obtained from the governmental bodies to finance small and medium sized entities on a pro-rata basis.

12 CAPITAL MANAGEMENT

For the purpose of capital management, capital includes capital, statutory reserve and all other equity reserves attributable to the shareholders of the Company. The primary objective of capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, increase equity financing or debt financing.

13 EMPLOYEE TERMINATION BENEFITS

The movement in the provision for employees' termination benefits, a defined benefit plan, during the year is as follows:

	2020	2019
	SR	*SR*
1 January	**1,559,794**	920,952
Expense charged to profit or loss	**766,066**	599,176
Actuarial remeasurement charged to OCI	**219,547**	157,890
Payments	**(62,528)**	(118,224)
31 December	**2,482,879**	1,559,794

The expense charged to profit or loss comprise of:

	2020	2019
	SR	*SR*
Current service cost	**727,774**	567,601
Interest cost	**38,292**	31,575
Cost recognized in profit or loss	**766,066**	599,176

13 EMPLOYEE TERMINATION BENEFITS (continued)

Significant actuarial assumptions	**As at 31 December**	
	2020	2019
Discount factor used	**2.00%**	2.50%
Salary increase rate	**3.00%**	4.00%
Rates of employee turnover	**Moderate**	Moderate

Sensitivity analysis of key actuarial assumptions are as follows:

	2020		2019	
	%	**SR**	%	SR
Discount rate				
Increase	**+ 1%**	**2,328,703**	+ 1%	1,475,745
Decrease	**- 1%**	**2,656,640**	- 1%	1,652,901
Salary growth rate				
Increase	**+ 1%**	**2,656,640**	+ 1%	1,651,488
Decrease	**- 1%**	**2,328,703**	- 1%	1,475,353

14 SHARE CAPITAL

The capital of the Company as at 31 December 2020 comprised 20,000,000 shares stated at SR 10 per share (2019: the same). The shareholders of the Company as at 31 December 2020 and 2019 and their respective shareholding is as follows:

	2020	2019
	SR	*SR*
Al Ahdaf Al Mumaizah Company Limited	**192,000,000**	192,000,000
Taajeer Gulf Company Limited	**2,000,000**	2,000,000
Taajeer Global Company Limited	**2,000,000**	2,000,000
Taajeer International Company Limited	**2,000,000**	2,000,000
Taajeer National Company for Auto Maintenance and Integrated Service Limited	**2,000,000**	2,000,000
	200,000,000	200,000,000

15 FINANCE INCOME

	2020	2019
	SR	*SR*
Income from Ijarah	**46,755,144**	37,549,885
Income from Murabaha	**38,886**	1,019,951
	46,794,030	38,569,836

It represents income earned on investment in finance lease at the profit rate implicit in the lease determined at the inception of the contract.

16 OTHER OPERATING INCOME

	2020	2019
	SR	*SR*
Administrative fee income	**5,635,467**	5,480,885
Insurance reimbursed/(paid), net	**3,897,964**	4,445,994
Rebate on purchase of vehicles	**6,221,297**	2,494,373
Gain on restructuring of Government loan	**775,278**	-
Other	**1,811,298**	1,486,479
	18,341,304	**13,907,731**

17 SELLING AND MARKETING EXPENSES

	2020	2019
	SR	*SR*
Employee benefits	**5,494,095**	5,299,354
Salesmen's commission	**6,479,872**	4,675,391
Rent for short-term leases	**1,213,382**	1,206,601
Collection and incentives expense	**1,130,836**	461,230
Advertisement	**2,186,775**	1,482,244
	16,504,960	13,124,820

18 GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019
	SR	*SR*
Employee benefits	**14,862,700**	13,294,923
Provision on closed contracts (see note below)	**3,258,202**	4,099,740
Professional charges	**2,386,722**	1,134,477
Depreciation and amortization	**2,095,726**	1,798,956
Rent for short-term leases	**492,057**	504,003
Communication	**536,213**	427,909
Collection and incentives expense	**1,448,348**	694,600
Other	**5,605,214**	3,328,142
	30,685,182	25,282,750

19 EMPLOYEE BENEFITS, DEPRECIATION, AMORTISATION, AND RENT INCLUDED IN THE STATEMENT OF COMPREHENSIVE INCOME

	2020	2019
	SR	*SR*
Included in selling and marketing expenses:		
Employee benefits	**5,494,095**	5,299,354
Depreciation	-	-
Amortisation	-	-
Rent	**1,213,382**	1,206,601
Included in general and administrative expenses:		
Employee benefits	**14,862,700**	13,294,923
Depreciation	**1,195,365**	977,836
Amortisation	**900,361**	821,120
Rent	**492,057**	504,003

20 RELATED PARTY DISCLOSURES

The following table provides the total amount of material transactions that have been entered into with related parties:

Related party	Nature of transaction	*2020*	*2019*
		SR	**SR**
Ultimate Parent	Purchase of Vehicles	**11,700,389**	31,845,640
	Collection from Company's customers	**-**	43,792,487
Sister companies	Purchase of Vehicles	**124,711,692**	83,598,566
	Interest on Short Term Loans	**224,989**	906,123
	Vehicle maintenace	**672,091**	1,696,266
	Debt collection Services	**1,017,634**	1,544,479
Key employee	Finance lease	**-**	320,818

Due to related parties comprise of the following:

	2020	2019
	SR	*SR*
Taajeer International Company Limited	**7,993,428**	25,263,631
Taajeer National Company for Maintenance and Integrated Services	**531,007**	2,264,701
Taajeer Group	**11,060,968**	890,333
Awaed Arabia	**331,333**	141,807
	19,916,736	28,560,472

Compensation of key management personnel of the Company

	2020	2019
	SR	*SR*
Short term employee benefits	**3,711,251**	3,066,300
Termination benefits	**559,005**	378,157
Total compensation of key management personnel	**4,270,256**	3,444,457

21 COMMITMENTS AND CONTINGENCIES

As at 31 December 2020, the Company had no contingent liabilities and commitments.

22 FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

22.1 Fair value measurements of financial instruments

As at 31 December 2020, apart from the investments which are carried at fair value (note 5), there are no other financial instruments held by the Company that are measured at fair value.

22.2 Risk Management of Financial Instruments

The Company's activities expose it to a variety of financial risks, credit risk, liquidity risk and market price risk.

Credit Risk:
Credit risk is the risk that one party to financial instruments will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk on the financial assets as follows.

22 FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

22.2 Risk Management of Financial Instruments (continued)

Credit Risk (continued):

	2020	2019
	SR	*SR*
Net investment in finance lease	**551,879,930**	422,668,096
Net deferred consideration receivable	**30,369,692**	**20,362,584**
Receivables against insurance claims	**2,972,106**	**2,437,135**
Bank balances	**124,411,290**	96,029,812
	709,633,018	541,497,627

The carrying amount of financial assets represents the maximum credit exposure.

The above balances except for net investment in finance lease are maintained with Banks and Insurance Companies with sound credit ratings.

a) Credit quality analysis

The following table sets out information about the credit quality of net investment in finance lease measured at amortized cost as at 31 December 2020 and 2019:

	31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	SR	**SR**	**SR**	**SR**
Description				
Net carrying amount before Expected credit loss	**467,702,015**	**77,420,955**	**43,608,889**	**588,731,859**
Expected credit loss	**2,360,626**	**2,537,989**	**31,953,314**	**36,851,929**

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
	SR	SR	SR	SR
Description				
Net carrying amount before Expected credit loss	348,675,723	30,586,900	72,655,835	451,918,458
Expected credit loss	5,117,904	2,218,992	21,913,466	29,250,362

b) Amounts arising from ECL - significant increase in credit risk

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

22 FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

22.2 Risk Management of Financial Instruments (continued)

Credit Risk (continued):

Credit risk grades

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

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

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 including GDP growth, benchmark profit rates, unemployment etc. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

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 the 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 90 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.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 90 days past due; and.
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2 and 3).

22 FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

22.2 Risk Management of Financial Instruments (continued)

Credit Risk (continued):

c) Modified financial assets

The contractual terms of a financing 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 whose terms have been modified may be derecognized and the renegotiated financing recognized as a new financing at fair value in accordance with the accounting policy.

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

The Company renegotiates finance lease 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, Finance lease 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 profit payments and amending the terms of leasing and instalments covenants. The lease portfolio is subject to the forbearance policy.

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

e) Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the 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.

f) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following parameters. 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.

22.2 Risk Management of Financial Instruments (continued)
Credit Risk (continued):

f) Measurement of ECL (continued)

PD estimates are estimates at a certain date, which are calculated, based on models and assessed using tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. 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 amortization. The EAD of a financial asset is its net carrying amount before ECL.

Liquidity Risk:
Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Following are the contractual maturities at the end of the reporting period of financial liabilities.

	31 December 2020			
	Carrying amount	**Less than 1 year**	**1 to 3 years**	**Over 3 years**
	SR	**SR**	**SR**	**SR**
Financial Liabilities				
Trade payables	**134,462,869**	**134,462,869**	**-**	**-**
Due to related parties	**19,916,736**	**19,916,736**	**-**	**-**
Long-term loans	**323,819,359**	**145,477,518**	**162,313,223**	**16,028,618**
	478,198,964	**299,857,123**	**162,313,223**	**16,028,618**

	31 December 2019			
	Carrying amount	Less than 1 year	1 to 3 years	Over 3 years
	SR	SR	SR	SR
Financial liabilities				
Trade payables	93,319,571	93,319,571	-	-
Due to related parties	28,560,472	28,560,472	-	-
Long-term loans	202,646,815	80,041,347	105,118,422	17,487,046
	324,526,858	201,921,390	105,118,422	17,487,046

Liquidity risk is managed by monitoring on a regular basis that sufficient funds and credit facilities are available to meet the Company’s future commitments.

Market Risk:
Market price risk is the risk that value of a financial instrument will fluctuate as a result of changes in market prices, such as interest rates, and will affect the Company's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

22.2 Risk Management of Financial Instruments (continued)

Currency Risk:

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that's not the Company's currency. The Company exposure to foreign currency risk is primarily limited to transactions in United State Dollars ("USD"). The Company's management believes that their exposure to currency risk associated with USD is limited as the Company's currency is pegged to USD. The fluctuation in exchange rates against other currencies is monitored on a continuous basis.

Interest Rate Risk

Interest rate risk is the exposure associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. Variable rate financial liabilities as at 31 December 2020 amounted to SR 323,819,359 (2019: SR 202,646,815).

Share Price Risk

The Company's investments in equity instruments of other companies are subject to market price risk arising from uncertainty about the future values of such investments.

As at 31 December 2020, the Company's investments in equity instruments of other companies which are recorded at fair value was SR 892,850 (2019: SR 892,850). Therefore, share price risk is not significant to the Company.

23 SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Company in preparing its financial statements:

FAIR VALUE MEASUREMENT

The Company measures financial instruments, such as investment in equity instruments, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value 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 by the Company.

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

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

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

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

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

23 SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE MEASUREMENT (continued)

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

FOREIGN CURRENCIES

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company at the spot rate ruling at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. When significant parts of property and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- Leasehold improvements 4 years
- Furniture and fixtures 10 years
- Office equipment 7 years
- Computer equipment 3 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets are not capitalized and expenditure is recognized in the statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category consistent with the function of the intangible assets.

23 SIGNIFICANT ACCOUNTING POLICIES (continued)

INTANGIBLE ASSETS (continued)

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU (Cash Generating Unit) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

VEHICLE AVAILABLE FOR SALE

Vehicles available for lease represents vehicles repossessed on termination of lease contracts and are stated at the net realizable value. Net realizable value represents the estimated selling price of the vehicles less the costs necessary to make the sale. Any impairment loss arising as a result of carrying these assets at their net realizable values is charged to profit or loss.

LEASES

The determination of whether an arrangement is, or contains, a lease is decided at the inception date. An arrangement is, or contains, a lease if it grants the right to control a particular asset or assets for a period of time in exchange for compensation.

Company as a lessee

A- Right-of-use assets

The Company recognizes 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 recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognized right-of-use assets are depreciated on a straight-line basis over its estimated useful life.

B- Lease liabilities

At the commencement date of the lease, the Company recognizes 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 any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments 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 recognized as expense in the period on 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.

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

Short-term leases are leases with a lease term of 12 months or less. Low value assets are items that do not meet the Company's capitalization threshold and are considered to be insignificant for the statement of financial position for the Company as a whole. Payments for short-term leases and leases of low value assets are recognized on a straight-line basis in the statement of profit or loss.

23 SIGNIFICANT ACCOUNTING POLICIES (continued)

Company as a lessor

Leases where the Company substantially transfers all risks and rewards of ownership are classified as finance leases. The finance lease is recognized at net investment value which represents the present value of gross lease payments discounted at profit rate implicit in the lease. The difference between the gross investment and the net investment is recognized as unearned finance income and unearned insurance income.

Leases where the Company does not substantially transfer all risks and rewards of ownership are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue once they are earned.

IMPAIRMENT OF NON-FINANCIAL 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 CGU’s fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Company's 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 of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Company’s CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the statement of profit or loss in those expense categories consistent with the function of the impaired asset. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Such reversal is recognized in the statement of profit or loss.

FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at amortized cost

After initial measurement, financial assets at amortized cost are measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

Debt instruments at fair value through OCI

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

23 SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL ASSETS (continued)

Equity instruments designated at fair value through OCI
Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity investments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

Derecognition
A financial asset is primarily derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets
The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The company has adopted the general approach to calculate ECL for its portfolio through the computation and subsequent application of risk estimates such as probability of default (PD), loss given default (LGD) and exposure at default (EAD).

STATUTORY RESERVE
As required by the Saudi Arabian Regulations for Companies, the Company transfers 10% of its profit for the year to the statutory reserve until the reserve equals 30% of capital. The reserve is not available for distribution as dividends.

23 SIGNIFICANT ACCOUNTING POLICIES (continued)

PROVISIONS

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

EMPLOYEE TERMINATION BENEFITS

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

OFFSETTING OF FINANCIAL INSTRUMENTS

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

REVENUE RECOGNITION

Leasing

Finance lease income is recognized over the period of the lease on a systematic basis, which results in a constant periodic rate of return on the net investment outstanding.

Administrative fee income

Fee income comprise of administrative fee and vehicle registration fee. Fee income is recognized immediately upon execution of the agreements with the customers.

23 SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION (continued)

Insurance reimbursed/(paid), net

As part of the periodic installments due from customers, the Company charges customers for insurance cover on the vehicles under lease contracts. Insurance charges represent cost of insurance (premium). Consequently, premiums are paid to the Insurers for the insurance cover for the vehicles under lease. Insurance income less any directly attributable expenses is recognized over the insured period of leased vehicles.

Rebate on purchase of financed asset

The Company obtains rebates on purchases from suppliers of leased assets. Rebate income is recognized when rebate is received from supplier on purchases made during the year.

Other operating income

Other operating income comprises additional fee charged on early settlement of lease contract and repossession of cars and customer credit assessment. The income is recognized on accrual basis.

GOVERNMENT GRANT

The Company recognizes a government grant related to income, if there is reasonable assurance that it will be received and the Company will comply with the conditions associated with the grant. The benefit of a government loan at a below-market rate of interest is treated as a government grant related to income. The below-market rate loan is recognized 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 carrying value of the loan determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. The government grant is recognized in the statement of profit or loss on a systematic basis over the period in which the Company recognizes as expenses the related costs for which the grant is intended to compensate. Government grants that are received as compensation for losses already incurred by the Company with no future related costs are recognized in profit or loss in the same period.

EXPENSES

Expenses related to operations are allocated on a consistent basis to selling and marketing expenses and general and administration expenses in accordance with consistent allocation factors determined as appropriate by the Company.

ZAKAT

The Company provide for zakat in accordance with the regulations of the General Authority of Zakat and Tax (GAZT). The provision is charged to profit or loss.

Uncertain zakat position

Differences that may arise at the finalization of an assessment are accounted for when the assessment is finalized with GAZT.

Value added tax

Revenues, expenses and assets are recognized net of the amount of value added tax, except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

24 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective are not expected to have a significant impact on the Company's financial statements:

- Amendments to IFRS 1 "First-time adoption of IFRS"regarding initial application by a subsidiary
- Amendments to IFRS 3"Business Combinations"regarding remarks to the conceptual framework
- Amendments to IFRS 9 "Financial instruments" regarding fees in the 10% test to eliminate the derecognition of financial obligations.
- IFRS 17 Insurance Contracts.
- Amendments to IAS 1"Presentation of financial statements" regarding the classification of financial liabilities between current and non-current
- Amendments to IAS 16 "Real estate, plant and equipment" regarding proceeds before the asset is ready.
- Amendments to IAS 37 "Provisions, contingent liabilities and contingent assets" regarding the cost of onerous contracts.
- Amendments to IAS 41 "Agriculture" regarding taxes on fair value measurement.

25 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are beginning to experience a new wave of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government.

The Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the problems effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. This has entailed reviewing specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required.

The prevailing economic conditions post lock down, do require the Company to continue to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These primarily revolve around either adjusting macroeconomic factors used by the Company in the estimation of ECL or revisions to the scenario probabilities currently being used by the Company in ECL estimation. During the year, the Company has made certain adjustment to scenario weightings and macroeconomic factors used by the Company in the estimation of expected credit losses.

The Company's ECL model continues to be sensitive to macroeconomic variables and scenario weightings. 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 judgmental and the Company will continue to reassess its position and the related impact on a regular basis.

25 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS (continued)

SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")

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 ("MSMEs") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program;
- Funding for lending program;
- Loan guarantee program; and
- Point of sale ("POS") and e-commerce service fee support program.

As part of the deferred payments program launched by SAMA in March 2020, the Company is required to defer payments on financing facilities to those companies that qualify as SMEs. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company has effected the payment reliefs by deferring the instalments falling due within the period from March 2020 to September 2020 for a period of six months, and from October 2020 to December 2020 for the three months, and from January 2021 to March 2021 for three months period. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement.

In order to compensate the related cost that the Company is expected to incur under the SAMA program, the Company received SR 7.5 million of profit free loan from SAMA during the year 2020. The amount is due to be repaid to SAMA over 1.5 year in equal monthly instalments, with initial grace period of 6 months. Details of the amount received from SAMA are as follows:

- an amount of SR 7.5 million, received against net investment in finance lease, has been recognized as "government loan" and accordingly, the Company has recognized an amount of SR 333 thousand as grant income to offset the modification losses for which the grant has been provided by SAMA (note 11).

During the year, the Company has received additional profit free loan from SAMA amounting to SR 10 million with a tenure of 30 months under the funding for lending program with a grace period of 6 months for repayment. The benefit of the interest free-loan has been accounted for on a systematic basis, in accordance with government grant accounting requirements.

During May 2020, SAMA issued a guidance document entitled "Guidance on Accounting and Regulatory Treatment of COVID-19 - Extraordinary Support Measures". The Company has considered the guidance issued in the preparation of this financial statement.

26 DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Company's board of directors on 17 Rajab 1442H corresponding to 1st March 2021.