

DAR AL TAMLEEK COMPANY
(A Saudi Closed Joint Stock Company)

**UNAUDITED CONDENSED INTERIM
FINANCIAL STATEMENTS**

For the three-month and nine-month periods ended September 30, 2020
together with the Independent Auditors' Review Report



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Independent Auditors' Report On Review of Condensed Interim Financial Statements

To the Shareholders of Dar Al Tamleek Company

Introduction

We have reviewed the accompanying condensed interim financial statements of Dar Al Tamleek Company ("the Company"), which comprises:

- the condensed statement of financial position as at September 30, 2020;
- the condensed statements of profit or loss and other comprehensive income for the three-month and nine-month periods ended September 30, 2020;
- the condensed statement of changes in shareholders' equity for the nine-month period ended September 30, 2020;
- the condensed statement of cash flows for the nine-month period ended September 30, 2020; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying September 30, 2020 condensed interim financial statements of **Dar Al Tamleek Company** are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382

Jeddah, Rabi Al Awal 11, 1442H
Corresponding to October 28, 2020



DAR AL TAMLEEK COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED STATEMENT OF FINANCIAL POSITION
Expressed in Saudi Arabian Riyals

	<u>Notes</u>	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
<u>ASSETS</u>			
Cash and cash equivalents	4	171,507,439	94,282,101
Accounts receivable and other assets		42,596,412	52,832,958
Properties for sale under finance leases		--	761,448
Net investment in finance leases	5	216,937,851	233,228,407
Servicing rights under agency arrangements	6	441,152,492	408,308,071
Investments at FVOCI		892,850	892,850
Right of use assets		6,191,615	7,684,626
Property and equipment		1,957,660	2,245,771
TOTAL ASSETS		881,236,319	800,236,232
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
<u>LIABILITIES</u>			
Accounts payable and other liabilities	7	229,749,082	191,814,747
Payable for properties for sale under finance leases		4,737,129	4,737,129
Bank borrowings		94,232,473	46,895,964
Lease liabilities		7,173,395	8,592,848
Employees' end of service benefits		11,604,563	10,910,833
Total liabilities		347,496,642	262,951,521
<u>SHAREHOLDERS' EQUITY</u>			
Share capital	8	358,750,000	358,750,000
Statutory reserve	8	46,665,860	46,665,860
Retained earnings		128,323,817	131,868,851
Total shareholders' equity		533,739,677	537,284,711
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		881,236,319	800,236,232

The accompanying notes 1 through 16 form an integral part of these condensed interim financial statements.

DAR AL TAMLEEK COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the three-month and nine-month periods ended September 30,
Expressed in Saudi Arabian Riyals

	Notes	For the three-month period ended September 30		For the nine-month period ended September 30	
		2020	2019	2020	2019
Income					
Income from finance leases		7,344,494	13,956,258	19,479,302	31,274,389
Income from agency arrangements		48,973,538	54,216,167	144,780,203	128,886,423
		<u>56,318,032</u>	<u>68,172,425</u>	<u>164,259,505</u>	<u>160,160,812</u>
Operating expenses					
Selling and marketing expenses		(13,480,771)	(16,374,398)	(39,846,798)	(45,658,580)
General and administrative expenses		(10,362,063)	(13,627,539)	(22,657,841)	(28,787,269)
Allowance for expected credit losses	5.3	(797,583)	--	(1,400,758)	--
Amortization of servicing rights under agency arrangements	6	(16,228,286)	(10,480,661)	(41,079,376)	(31,144,620)
Net operating income		15,449,329	27,689,827	59,274,732	54,570,343
Financial charges		(456,792)	(302,092)	(1,592,815)	(1,134,790)
Other income		60,227	495,250	781,094	4,349,696
Profit for the period before Zakat		15,052,764	27,882,985	58,463,011	57,785,249
Zakat charge		(1,731,999)	(2,788,299)	(6,208,045)	(5,778,525)
Net profit and other comprehensive income for the period		13,320,765	25,094,686	52,254,966	52,006,724
Basic and diluted earnings per share (expressed in SR per share)	11	0.371	0.493	1.457	1.022

The accompanying notes 1 through 16 form an integral part of these condensed interim financial statements.

DAR AL TAMLEK COMPANY
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CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the nine-month period ended September 30,
Expressed in Saudi Arabian Riyals

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at January 1, 2020	358,750,000	46,665,860	131,868,851	537,284,711
Net profit and other comprehensive income for the period	--	--	52,254,966	52,254,966
Dividends (note 9)	--	--	(55,800,000)	(55,800,000)
Balance as at September 30, 2020	358,750,000	46,665,860	128,323,817	533,739,677
Balance as at January 1, 2019	508,750,000	35,741,787	85,364,022	629,855,809
IFRS 16 first time adoption impact (note 3)	--	--	(1,812,270)	(1,812,270)
Balance as at January 1, 2019 (restated)	508,750,000	35,741,787	83,551,752	628,043,539
Net profit and other comprehensive income for the period	--	--	52,006,724	52,006,724
Dividends (note 9)	--	--	(49,602,950)	(49,602,950)
Balance as at September 30, 2019	508,750,000	35,741,787	85,955,526	630,447,313

The accompanying notes 1 through 16 form an integral part of these condensed interim financial statements.

DAR AL TAMLEEK COMPANY
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CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the nine-month period ended September 30

Expressed in Saudi Arabian Riyals

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Operating activities:			
Profit for the period before Zakat		58,463,011	57,785,249
<i>Adjustments for:</i>			
Depreciation		2,463,797	2,634,780
Amortization of servicing rights under agency arrangements	6	41,079,376	31,144,620
Allowance for expected credit loss	5.3	1,400,758	--
Income from servicing rights under agency arrangements		(73,923,797)	(83,166,529)
Finance charges		1,592,815	1,134,790
Employees' benefits charge for the period		1,060,308	1,022,290
		<u>32,136,268</u>	<u>10,555,200</u>
<u>Changes in operating assets and liabilities</u>			
Accounts receivable and other assets		10,997,994	(14,852,812)
Net investment in finance leases		14,889,798	(4,114,955)
Accounts payable and other liabilities		44,286,044	47,264,372
Payable for properties for sale under finance leases		--	(5,600,501)
		<u>102,310,104</u>	<u>33,251,304</u>
Cash flow generated from operations			
Employees' benefits paid		(366,578)	(1,603,355)
Financial charges paid		(482,380)	(2,567,093)
Zakat paid		(12,559,754)	(8,905,034)
		<u>88,901,392</u>	<u>20,175,822</u>
Net cash generated from operating activities			
Investing activities:			
Purchase of property and equipment		(682,675)	(1,463,320)
Financing activities:			
Proceeds from bank borrowings		50,000,000	--
Repayments of bank borrowings		(3,515,571)	(98,606,543)
Dividends paid		(55,800,000)	(49,602,950)
Payment of lease liabilities		(1,677,808)	(1,961,770)
		<u>(10,993,379)</u>	<u>(150,171,263)</u>
Net cash used in financing activities			
Increase / (decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of the period	4	94,282,101	342,170,594
Cash and cash equivalents at end of the period	4	<u>171,507,439</u>	<u>210,711,833</u>

The accompanying notes 1 through 16 form an integral part of these condensed interim financial statements.

DAR AL TAMLEEK COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended September 30, 2020

Expressed in Saudi Arabian Riyals

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Dar Al Tamleek Company (“the Company”) is a Saudi Closed Joint Stock Company, incorporated under the Ministerial Resolution No. 155 dated Jumada Awal 5, 1429H (corresponding to May 11, 2008). The Company is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030180844 dated Rajab 9, 1429H (corresponding to July 12, 2008) and fully owned by Saudi shareholders.

Pursuant to the promulgation of Real Estate Finance Law (“Real Estate Finance Law”) in the Kingdom of Saudi Arabia, the Company applied for, and received license from the Saudi Arabian Monetary Agency (“SAMA”) to operate as a leasing entity under the Real Estate Finance Law on Safar 28, 1435H, corresponding to December 31, 2013.

The Company is authorized to operate in the Kingdom of Saudi Arabia for the purpose of financing through, purchase, sale and ownership of land and real estate units, except in the cities of Makkah and Al Medina.

The Company’s core operating activities include originating, arranging and servicing real estate finance leases.

The Company operates through its following registered branches:

<u>Branch</u>	<u>Commercial Registration No.</u>
Riyadh	1010278650
Jeddah	4030194954
Jeddah	4030263817
Al Khobar	2050075914

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

Burj Al-Makhmal, Al-Roudah Street,
P. O. Box 55026, Jeddah 21534,
Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

(a) Statement of compliance

These condensed interim financial statements are prepared in accordance with IAS 34 - Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants (“SOCPA”). The Company prepares its financial statements to comply with SAMA regulations applicable to Real Estate Finance Entities, the Regulation for Companies in the Kingdom of Saudi Arabia and the Company’s By-laws. These condensed interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company’s annual financial statements for the year ended 31 December 2019.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended September 30, 2020

Expressed in Saudi Arabian Riyals

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

The financial statements of the Company as at and for the three-month period ended March, 31 2019, were prepared in compliance with the IAS 34 and the International Financial Reporting Standards (“IFRS”) respectively, as modified by SAMA for the accounting of zakat and income tax, the requirements of SAMA regulations applicable to Real Estate Finance Entities, the Regulation for Companies in the Kingdom of Saudi Arabia and the Company’s By- laws.

On 17 July 2019, SAMA instructed finance companies in the Kingdom of Saudi Arabia to account for zakat and income taxes in the statement of profit or loss and other comprehensive income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board (“IASB”) as endorsed in the Kingdom of Saudi Arabia and with other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in KSA”).

(b) Basis of measurement

The condensed interim financial statements have been prepared under the historical cost convention, except for investments at fair value through other comprehensive income (“FVOCI”) and employees’ end of service benefits

(c) Functional and presentation currency

These condensed interim financial statements are presented in Saudi Arabian Riyals (“SR”) which is the Company’s functional currency.

(d) Critical accounting judgements, estimates and assumptions

The preparation of condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, 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 recognized in the period in which the estimates are revised and in any future periods affected by the revision. The key areas requiring significant management judgments and estimates are consistent with those disclosed in note 2d to annual financial statements for the year ended December 31, 2019.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended September 30, 2020

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3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2019.

Effective January 1, 2019, the Company adopted IFRS 16 “leases”. The impact of adoption of this standard is disclosed in note 3.1 to the annual financial statements for the year ended December 31, 2019.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, comprise of the following:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
Cash in hand	15,534	12,917	12,530
Cash at bank (Note 4.1)	<u>171,491,905</u>	<u>94,269,184</u>	<u>210,699,303</u>
	<u>171,507,439</u>	<u>94,282,101</u>	<u>210,711,833</u>

- 4.1 Cash at bank include an amount of SR 20.4 million (December 31, 2019: SR 9.1 million) representing cheques issued for the transfer of legal title of properties under finance leases (due to local applicable legal requirements) and shall be adjusted upon completion of such transfer.

5. NET INVESTMENT IN FINANCE LEASES

- 5.1 Net investment in finance leases comprises of the following:

	<u>Current portion</u>	<u>Non-current portion</u>	<u>September 30, 2020</u>
<u>As at September 30, 2020 (Unaudited)</u>			
Gross investment in finance leases	31,321,668	358,393,160	389,714,828
Less: Unearned finance income	<u>(17,099,125)</u>	<u>(135,935,464)</u>	<u>(153,034,589)</u>
	<u>14,222,543</u>	<u>222,457,696</u>	<u>236,680,239</u>
Allowance for expected credit loss			<u>(19,742,388)</u>
Net investment in finance leases			<u>216,937,851</u>

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For the nine-month period ended September 30, 2020

Expressed in Saudi Arabian Riyals

5. NET INVESTMENT IN FINANCE LEASES (continued)

<i>As at December 31, 2019 (Audited)</i>	<u>Current portion</u>	<u>Non-current portion</u>	<u>December 31, 2019</u>
Gross investment in finance leases	33,452,799	383,980,580	417,433,379
Less: Unearned finance income	<u>(19,307,411)</u>	<u>(146,113,736)</u>	<u>(165,421,147)</u>
	<u>14,145,388</u>	<u>237,866,844</u>	252,012,232
Allowance for expected credit loss			<u>(18,783,825)</u>
Net investment in finance leases			<u>233,228,407</u>

5.2 Maturity analysis of the gross investment in finance lease is as follows:

	<u>September 30, 2020</u> (Unaudited)	<u>December 31, 2019</u> (Audited)
Less than 1 year	31,321,668	33,452,799
1 to 5 years	150,268,647	160,636,797
Over 5 years	<u>208,124,513</u>	<u>223,343,783</u>
	<u>389,714,828</u>	<u>417,433,379</u>

5.3 Movement in allowance for expected credit loss for the nine-month period ended September 30, is as follows:

	<u>2020</u> (Unaudited)	<u>2019</u> (Unaudited)
Balance at the beginning of the period	18,783,825	23,202,857
Net charge for the period	1,400,758	--
Write off	<u>(442,195)</u>	<u>(752,965)</u>
Balance at the end of the period	<u>19,742,388</u>	<u>22,449,892</u>

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

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6. SERVICING RIGHTS UNDER AGENCY ARRANGEMENTS

Movement in the servicing rights under agency arrangements is as follows:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
Balance at the beginning of the period / year	408,308,071	288,514,347	288,514,347
Addition during the period / year	73,923,797	157,285,461	83,166,529
Amortization for the period / year	(41,079,376)	(37,491,737)	(31,144,620)
Balance at the end of the period / year	<u>441,152,492</u>	<u>408,308,071</u>	<u>340,536,256</u>

7. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities include SR 7.3 million (December 31, 2019: SR 23.5 million) payable to related party in respect of lease instalments collected on behalf thereof, under servicing arrangement.

8. SHARE CAPITAL

As at September 30, 2020, the Company's authorised share capital as per its By-Laws is SR 358.75 million (December 31, 2019: SR 358.75 million) divided into 35.875 million shares of SR 10 each (December 31, 2019: 35.875 million shares of SR 10 each).

The shareholders of the Company in their meeting dated September 10, 2019 resolved to reduce the share capital from SR 508.75 million to SR 358.75 million by cancelling 15 million shares without any change in the effective pattern of shareholding. The legal formalities for the decrease in the share capital were completed during the year ended December 31, 2019.

In accordance with the Company's By-laws and the Saudi Arabian Regulations for Companies, the Company set aside 10% of its net income each year as statutory reserve until such reserve equals to 30% of the share capital. This reserve is currently not available for distribution to the shareholders of the Company.

9. DIVIDENDS

On March 8, 2020, the Board of Directors proposed a dividend of SR 55.8 million (SR 1.56 per share), [2019: SR 49.6 million (SR 0.97 per share)] which was approved by the shareholders via General Assembly meeting held on May 13, 2020.

10. ZAKAT

The Company is calculating Zakat for the year 2020 based on the new Zakat rules for financing activities.

Zakat expense is charged to the condensed statement of profit or loss and other comprehensive income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

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11. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income for the period by the weighted average number of shares outstanding during the period. The calculation of diluted earnings per share is not applicable to the Company.

12. FAIR VALUE

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

As at the reporting date, management believes that the fair values of the Company's financial assets and liabilities are not materially different from their respective carrying values.

13. CAPITAL MANAGEMENT

The Board of Director's policy is to maintain a strong capital base so as to maintain investor, credit and market confidence and to sustain future development of the business of the Company. Capital consists of ordinary shares and retained earnings of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders. The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The net debt to equity ratio as at September 30, 2020 and December 31, 2019 is as follows:

	September 30, 2020	December 31, 2019
Total liabilities	347,496,642	262,951,521
Less: Cash and cash equivalents	(171,507,439)	(94,282,101)
Adjusted net debt	175,989,203	168,669,420
Total shareholders' equity	533,739,677	537,284,711
Adjusted net debt to equity ratio	33%	31%

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended September 30, 2020

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14. 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 “second wave” of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia (“the Government”) however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time and is closely monitoring its exposures at a granular level. 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 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. As the situation continues to be fluid, the management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. Accordingly, management’s ECL assessment includes staging analysis depending on the impacted portfolios and macroeconomic analysis. The Company will continue to reassess as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

In response to COVID-19, SAMA launched various support programs in relation to customers operating in different sectors. These programs include payment deferrals and waiver of fees. The Company has assessed the impact of these support programs on its lease portfolio and determined that there is no significant impact thereof as of the reporting date. Moreover, while the Company continues to assess customer eligibility for granting deferral of instalments, to date, no leases have been modified as such.

In April 2020, SAMA issued further guidance to financing companies around providing the necessary support for individual customers that lost their jobs in the private sector due to COVID-19, whether directly or indirectly. The Company will continue to consider the guidance issued and evaluate any accounting impact as and when the case arises. As at the reporting date, there is an immaterial impact due to payment deferral given in respect of the foregoing.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended September 30, 2020

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15. NEW STANDARDS OR AMENDMENTS FOR 2020 AND FORTHCOMING REQUIREMENTS

New currently effective requirements: This table lists the recent changes to the standards that are required to be applied by an entity with an annual reporting beginning on 1 January 2020.

Effective date	New standards or amendments
1 January 2020	Amendments to References to Conceptual Framework in IFRS standards
	Definition of a Business Combination (Amendments to IFRS 3)
	Definition of Material (Amendments to IAS 1 and IAS 8)
	Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The management believes that the above new pronouncements had no material impact on these condensed interim financial statements

Forthcoming requirements:

Effective date	New standards or amendments
1 January 2023	IFRS 17 Insurance Contracts
1 January 2023	Classification of liabilities as Current or Non-current (Amendments to IAS1)
Available for optional adoption / effective date deferred indefinitely	Sales or Contributions of Assets between an Investor and its Associates or Joint Venture (Amendments to IFRS 10 and IAS 28)

The management believes that the above forthcoming requirements are not expected to have a material impact on the Company in the future periods.

16. APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were authorized for issue on Rabi Al Awal 11, 1442H, corresponding to October 28, 2020.