

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
For the year ended 31 December 2021
with
INDEPENDENT AUDITOR'S REPORT



KPMG Professional Services

Zahran Business Center
Prince Sultan Street
P.O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
Commercial Registration No 4030290792

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

مركز الزهران للأعمال
شارع الأمير سلطان
ص.ب. ٥٥٠٧٨
جدة ٢١٥٣٤
المملكة العربية السعودية
سجل تجاري رقم 4030290792
المركز الرئيسي في الرياض

Independent Auditor's Report

To the Shareholders of AJIL Financial Services Company

Opinion

We have audited the financial statements of AJIL Financial Services Company ("the Company"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional 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. Our responsibilities under those standards are further described in the Auditors' 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 IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies, 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, the Board of Directors, are responsible for overseeing the Company's financial reporting process.

KPMG Professional Services, a professional closed joint stock company registered in the Kingdom of Saudi Arabia. With the paid-up capital of (25,000,000) SAR. (Previously known as "KPMG Al Fozan & Partners Certified Public Accountants") A non-partner member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

كي بي إم جي للاستشارات المهنية شركة مهنية مساهمة مغلقة، مسجلة في المملكة العربية السعودية، رأس مالها (٢٥,٠٠٠,٠٠٠) ريال سعودي مدفوع بالكامل، المسماة سابقاً "شركة كي بي إم جي الفوزان وشركاه محاسبون ومراجعون قانونيون". و هي عضو غير شريك في الشبكة العالمية لشركات كي بي إم جي المستقلة والتابعة لـ كي بي إم جي العالمية المحدودة، شركة انجليزية محدودة بضمان. جميع الحقوق محفوظة

Commercial Registration of the headquarters in Riyadh is 1010425494.

Independent Auditor's Report

To the Shareholders of AJIL Financial Services Company (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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


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

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

Report on Other Legal and Regulatory Requirements

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

For KPMG Professional Services



Nasser Ahmed Al Shutairy
License No. 454



Jeddah, 3 Shaban 1443H
Corresponding to 6 March 2022

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

Expressed in Saudi Arabian Riyals

	Notes	2021	2020
<u>ASSETS</u>			
Cash and bank balances	4	47,757,136	30,765,788
Advances, prepayments and other receivables	5	64,961,454	69,592,263
Net investment in finance leases	6	907,166,890	1,211,856,960
Murabaha financing receivables	7	617,407,629	389,201,408
Margin deposits	8	--	12,098,349
Due from a related party	17	--	102,262
Property and equipment	9	2,537,660	2,549,011
Right of use assets	10	6,683,093	9,980,762
Intangible assets	11	2,346,155	2,429,743
Equity investment at fair value through other comprehensive income	12	892,850	892,850
Total assets		1,649,752,867	1,729,469,396
<u>SHAREHOLDERS' EQUITY AND LIABILITIES</u>			
<u>Shareholders' equity</u>			
Share capital	13	500,000,000	500,000,000
Statutory reserve	14	100,572,044	100,572,044
Retained earnings		60,264,130	240,184,861
Actuarial losses on employees' defined benefit obligation	15	(3,025,609)	(3,642,137)
Total shareholders' equity		657,810,565	837,114,768
<u>Liabilities</u>			
Trade, accrued and other payables	16	81,732,045	100,815,665
Due to related parties	17	7,827,365	16,175,628
Net servicing liability for sold finance lease receivable	18	--	1,500,593
Lease liabilities in respect of right of use assets	10	5,896,647	8,675,255
Term loans facilities	19	879,736,367	747,840,231
Accrued Zakat	20	2,322,923	351,941
Employees' defined benefit obligation	15	14,426,955	16,995,315
Total liabilities		991,942,302	892,354,628
Total shareholders' equity and liabilities		1,649,752,867	1,729,469,396

The accompanying notes 1 to 32 form an integral part of these financial statements.

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Revenue, net	21	131,368,252	115,054,485
Finance charges, net	23	(11,492,033)	(6,508,213)
		119,876,219	108,546,272
General and administrative expenses	22	(56,342,079)	(56,062,901)
Depreciation of property and equipment	9	(1,224,078)	(1,485,181)
Depreciation of right of use assets	10	(3,297,669)	(1,335,404)
Amortization of intangible assets	11	(915,731)	(934,624)
Profit before expected credit losses		58,096,662	48,728,162
Expected credit losses on net investment in finance leases	6	(181,966,511)	(72,633,413)
Expected credit losses on financial assets	5 & 7	(53,755,146)	(20,207,547)
Loss before Zakat		(177,624,995)	(44,112,798)
Zakat	20	(2,295,736)	(375,984)
Net loss for the year		(179,920,731)	(44,488,782)
Basic and diluted loss per share	29	(3.60)	(0.890)

The accompanying notes 1 to 32 form an integral part of these financial statements.

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Net loss for the year		(179,920,731)	(44,488,782)
Other comprehensive income / (loss):			
<i>Items that will not be reclassified to statement of profit or loss in subsequent periods:</i>			
Re-measurement gain / (loss) on employees' defined benefit obligation	15	<u>616,528</u>	<u>(730,923)</u>
Total other comprehensive income / (loss) for the year		<u>616,528</u>	<u>(730,923)</u>
Total comprehensive loss for the year		<u>(179,304,203)</u>	<u>(45,219,705)</u>

The accompanying notes 1 to 32 form an integral part of these financial statements.

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Actuarial losses on employees' defined benefit obligations</u>	<u>Total equity</u>
Balance as at 1 January 2021	500,000,000	100,572,044	240,184,861	(3,642,137)	837,114,768
Net loss for the year	--	--	(179,920,731)	--	(179,920,731)
Other comprehensive gain	--	--	--	616,528	616,528
Balance as at 31 December 2021	<u>500,000,000</u>	<u>100,572,044</u>	<u>60,264,130</u>	<u>(3,025,609)</u>	<u>657,810,565</u>
Balance as at 1 January 2020	500,000,000	100,572,044	284,673,643	(2,911,214)	882,334,473
Net loss for the year	--	--	(44,488,782)	--	(44,488,782)
Other comprehensive loss	--	--	--	(730,923)	(730,923)
Balance as at 31 December 2020	<u>500,000,000</u>	<u>100,572,044</u>	<u>240,184,861</u>	<u>(3,642,137)</u>	<u>837,114,768</u>

The accompanying notes 1 to 32 form an integral part of these financial statements.

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

	Notes	2021	2020
Operating activities			
Loss for the year before Zakat		(177,624,995)	(44,112,798)
Adjustments for:			
Depreciation of property and equipment	9	1,224,078	1,485,181
Depreciation of right of use assets	10	3,297,669	1,335,404
Amortization of intangible assets	11	915,731	934,624
Intangibles written-off	11	12,000	--
Expected credit losses on net investment in finance leases	6	181,966,511	72,633,413
Expected credit losses on financial assets	5&7	53,755,146	20,207,547
Employees' defined benefit obligation	15	2,299,540	1,878,925
(Gain) / Loss on disposal of property and equipment		(115)	10,207
Financial charges	23	7,741,703	10,630,312
Grant income	21	(5,015,127)	--
Modification losses, net	21 & 23	(3,158,431)	12,149,482
<i>Operating profit before changes in operating assets and liabilities</i>		65,413,710	77,152,297
Changes in operating assets and liabilities:			
Net investment in finance leases		129,632,320	33,711,166
Murabaha financing receivables		(281,549,470)	(169,834,862)
Advances, prepayments and other receivables		4,218,912	(27,354,779)
Due from a related party		102,262	(102,262)
Margin deposits		12,098,349	1,138,585
Trade, accrued and other payables		(3,712,213)	50,300,508
Due to related parties		(8,348,263)	15,074,697
Net servicing liability for sold finance lease receivables		(1,500,593)	(918,380)
Cash used in operations		(83,644,986)	(20,833,030)
Zakat paid	20	(324,754)	(6,650,661)
Finance charges paid		(21,755,485)	(2,244,102)
Employees' defined benefit obligation paid	15	(4,251,372)	(1,141,662)
Net cash used in operating activities		(109,976,597)	(30,869,455)
Investing activities			
Purchase of property and equipment and intangible assets	9 & 11	(2,056,870)	(689,651)
Proceeds from disposal of property and equipment		115	2,067
Net cash used in investing activities		(2,056,755)	(687,584)
Financing activities			
Proceeds from borrowings		1,250,352,909	311,000,000
Repayments of borrowings		(1,118,016,047)	(285,078,317)
Repayment of lease liabilities	10 (c)	(3,312,162)	(783,643)
Net cash generated from financing activities		129,024,700	25,138,040
Net increase / (decrease) in cash and bank balances		16,991,348	(6,418,999)
Cash and bank balances at the beginning of the year	4	30,765,788	37,184,787
Cash and bank balance at the end of the year		47,757,136	30,765,788

The attached notes 1 to 32 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

1. ACTIVITIES

AJIL Financial Services Company (the “Company” or “AJIL”) is registered in the Kingdom of Saudi Arabia under commercial registration number 4030122889, dated 30 Rajab 1418H (corresponding to 30 November 1997). The legal status of the Company was changed from a Limited Liability Company to a Closed Joint Stock Company under Ministerial Declaration number 206/Q, dated 18 Jumada Thani 1429H (corresponding to 22 June 2008), and according to Companies Law Provisions issued by Royal Decree number M/6 dated 27 Thul Quada 1417H (corresponding to 5 April 1997).

A new commercial registration certificate under the same number was issued by the Ministry of Commerce on 11 Rajab 1429H (corresponding to 14 July 2008). The unified number of Company as per commercial registration certificate is 7001457873.

The Company’s objectives are to carry out financial leasing transactions and to finance productive assets in small and medium enterprises including:

- i. Financing of fixed and moveable assets, peripherals, accessories and spare parts thereof, including but not limited to industrial, agricultural, commercial, artisanal, professional, therapeutic, educational, recreational, energy, water and sewage facilities and projects; equipment used in warehouses, production equipment and machinery, equipment used in the medical field, in construction, transportation, airport, railroads and stations associated therewith; cranes and vehicles (Including Trucks, buses, trains, cars, whether manufactured or retrofitted for civil defense, airports or other such purposes), office equipment, stationery and computers; and
- ii. Buying, selling, leasing and renting commercial real estate, land and buildings of all kinds, transferring them and disposing thereof for the purposes of finance leasing and signing finance lease contracts for all the foregoing; including registering and transferring commercial and residential real estate, land and buildings used as collateral for financing operations related to the Company’s financing activities.

The Company’s Head Office is located at the following address:

AJIL Financial Services Company
Jeddah 101 Building
Sari Street
P.O. Box 13624, Jeddah 21414
Kingdom of Saudi Arabia

On 21 Rajab 1435H (corresponding to 20 May 2014), the Company received a license from the Saudi Central Bank (“SAMA”) to conduct lease financing business in the Kingdom of Saudi Arabia. The Finance Companies Control Law was issued by the Saudi Council of Ministers through its publication No. 259 dated 12 Shaban 1433H (corresponding to 2 July 2012) and the Royal Decree No. 51 dated 13 Shaban 1433H (corresponding to 3 July 2012) and their implementing regulations were issued by SAMA for conducting lease financing business in the Kingdom of Saudi Arabia.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

1. ACTIVITIES (continued)

On 1 Muharram 1439H (corresponding to 21 September 2017), the Company received a no objection certificate from SAMA to conduct commodity murabaha business in the Kingdom of Saudi Arabia.

These financial statements include the results, assets and liabilities of the following branches:

<u>Commercial Registration Number</u>	<u>Location</u>
2050044861	Dammam
2051031244	Al-Khobar
5850027895	Abha
1010194653	Riyadh
4030612980	Jeddah

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Company as at and for the year ended 31 December 2021 have been prepared:

- in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRS that are endorsed in KSA").
- in compliance with the Companies' Law in the Kingdom of Saudi Arabia and Company's By-laws.

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

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention, except for investment at fair value through other comprehensive income ("FVOCI") which are measured at fair value and the employees' defined benefit obligation which are recognised at the present value of future obligations using the projected unit credit method.

2.3 Functional and presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

2. BASIS OF PREPARATION (continued)

2.4 Significant accounting judgements, estimates and assumptions

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, are described below. The Company based its assumptions and estimates on information available when financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company's management. Such changes are reflected in the assumptions when they occur.

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.

Actuarial valuation of employee benefits liabilities

The cost of the employees' defined benefit obligation and the carrying value of employees' defined benefit obligation are determined using external actuarial valuation. An external actuarial valuation involves making various assumptions that may differ from actual developments in the future.

These include the determination of appropriate discount rate and future salary increases. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Expected credit losses (ECL) on net investment in finance leases and financial assets

ECL assessment 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 (where appropriate). These estimates are driven by a number of factors, changes in which can result in different levels of ECL allowances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

2. BASIS OF PREPARATION (continued)

2.4 Significant accounting judgements, estimates and assumptions (continued)

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

- The Company's model for determination of defaults, which assigns loss rate (LR) to the individual pool of receivables and assessing the exposure at default (EAD).
- The segmentation of finance leases and murabaha financing receivables when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulae and the appropriate inputs.
- Determination of associations between macroeconomic scenarios and economic inputs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings.

Fair Value of unquoted assets

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

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

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

Financial instruments for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing 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.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

2. BASIS OF PREPARATION (continued)

2.4 Significant accounting judgements, estimates and assumptions (continued)

Impairment of non-financial assets

The Company reviews the carrying amounts of non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use.

Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised. A reversal of an impairment loss is recognized as income immediately in the separate statement of profit or loss and other comprehensive income.

COVID-19 and SAMA support program

The Company has exercised judgement in the assessment/ determination of the impact of COVID-19 on ECL as well as regarding the financial reporting impact of SAMA support programmes (note 33).

Leases – Company as Lessee

a) Determining the lease term of contracts with renewal and termination options – Company as lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has certain lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. The Company included the renewal period as part of the lease term for leases due to the significance of leased assets to its operations.

b) Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the Company's financial statements for the year ended 31 December 2020, except as disclosed below:

New standards, interpretations and amendments promulgated by International Accounting Standard Board (IASB) and adopted by the Company:

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after 1 January 2021. The management has assessed that the amendments have no significant impact on the Company's financial statements.

Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform. Whilst adoption is not mandatory for December 2021 year ends, earlier application is permitted.

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash at banks and other short term highly liquid investments with original maturities of three months or less, which are available to the Company without any restrictions. Temporary cheques issued for title transfer of acquired properties are classified as cash in transit and included in cash and cash equivalents.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

a) As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

a) As a lessee (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less 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 also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses its 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 lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

b) As a Lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

b) As a Lessor (continued)

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Contracts based on Musharika, which in substance represents a syndicated finance lease arrangement, is recorded as net investment in finance lease and is stated at cost, representing the balance of the Company's share in the Musharika funding.

Financial instruments

Classification of financial assets

On initial recognition, a financial asset is recognised at fair value and classified as amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through statement of income ("FVIS").

Financial asset at amortised cost

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

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

Financial asset at FVOCI

Debt instruments:

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Classification of financial assets (continued)

Equity instruments:

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

Financial asset at FVIS

All other financial assets are classified as measured at FVIS.

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

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Assessments whether contractual cash flows are solely payments of principal and profit ("SPPI" criteria)

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

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

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

Classification of financial liabilities

Upon initial recognition, the Company recognises financial liabilities at fair value and classifies its financial liabilities, as measured at amortised cost.

Subsequently, financial liabilities are measured at amortised cost, unless they to be measured at fair value through income statement or if the Company adopts to measure a liability at fair value through income statement as per the requirements of IFRS 9.

Derecognition

Financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition (continued)

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in statement of income on derecognition of such securities. Any profit in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability. In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

When the Company transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, the entity is required to recognise either a servicing asset or a servicing liability for that servicing contract, as follows:

- a) If the fee to be received is not expected to compensate adequately for performing the servicing, the Company should recognise a servicing liability for the servicing obligation at its fair value.
- b) If the fee to be received is expected to be more than adequate compensation for the servicing, the Company should recognise a servicing asset for the servicing right. This should be recognised at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

A servicing asset is a non-financial asset representing a right to receive a higher than normal amount for performing future services. Accordingly, it is generally accounted for in accordance with IAS 38 – Intangible Assets. Similarly, a servicing liability represents consideration received in advance for services to be performed in the future and is generally accounted for as deferred revenue in accordance with IFRS 15 – Revenue from Contracts with Customers.

Modifications of financial assets and financial liabilities

Financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Modifications of financial assets and financial liabilities (continued)

Financial liabilities

The Company derecognizes the financial liability when its contractual obligations are discharged or cancelled or expire. Moreover, if the terms of financial liability are modified and the cash flows of the modified liability are substantially different, the Company derecognizes a financial liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability recognized with modified terms is recognised in statement of income. Furthermore, the Company cannot reclassify any financial liability.

Impairment of financial assets (and finance lease receivables)

The Company recognizes loss allowances for ECL on the following assets that are not measured at FVIS:

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

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL for:

- trade and other receivables without a significant financing component
- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The key inputs into the measurement of ECL are based on the following variables:

- Loss rate
- Exposure at default (EAD)

The Company categorizes its leasing portfolio into various groups on the basis of common credit risk characteristics for the purpose of collective basis of ECL determination using appropriate models. Lease customers which have materially different credit risk characteristics (such as customers subject to bankruptcy, significant litigation or other factors) are assessed on individual basis for ECL determination purposes.

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

The forward-looking information includes elements such as expert judgement, macroeconomic factors and economic forecasts obtained through internal and external sources.

Management apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model, if required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (and finance lease receivables)

Measurement of ECL

For finance lease receivables, ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- finance leases that are not credit-impaired at the reporting date; an estimate of lifetime loss is made, considering the loss rate, exposure at defaults, taking into account the forward looking information i.e. the macro-economic factor;
- finance leases that are credit-impaired (90 days past due) at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash inflows.

For murabaha financing receivables (“receivables”), the Company measures loss allowance for stage 1 receivables at an amount equal to 12 months expected credit losses. Where the expected lifetime of a receivable is less than 12 months, expected losses are measured at its expected lifetime. 12 months expected credit losses are the portion of expected credit losses that result from default events on the receivables that are possible within 12 months after the reporting period. The receivables of the Company are categorized as follows:

Stage 1: These represent the receivables where customers have low risk of default and a strong capacity to meet contractual cash flows.

Stage 2: these represent financial assets where there is a significant increase in credit risk and that is presumed if the customer is more than 30 days past due in making contractual payment/installment.

Stage 3: these represent defaulted receivables. A default on a receivables is considered when the customer fails to make a contractual payment/installment within 90 days after they fall due. The Company measures loss allowance for non-performing receivables at an amount equal to lifetime expected credit losses.

Restructured financial assets or leases

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original special commission rate of the existing financial asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Credit-impaired financial assets (and finance lease receivables)

At each reporting date, the Company assesses whether financial assets carried at amortised cost and finance lease receivables are credit-impaired. A financial asset (and finance lease receivables) is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred. A financial asset (and finance lease receivables) that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. Moreover, murabaha receivables and finance lease receivables that are overdue for more than 90 days are considered credit impaired unless there is evidence to the contrary. During the year ended 31 December 2021, based on a detailed assessment of its lease portfolio historical performance and the current characteristics, the Company has revised its quantitative trigger point for credit impairment to 90 days for finance lease receivables. This has been accounted for as a change in estimate. The Company has made appropriate updates to its ECL models to account for this change.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as a deduction from the gross carrying amount of the financial assets and net investment in finance lease respectively.

Write-off

Finance lease receivables, murabaha receivables and other financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. However, such assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Murabaha financing receivables

Murabaha is an Islamic form of financing where the Company, based on requests from its customers, purchases specific commodities and sells them to the customers at an agreed-upon price equal to the Company's cost plus a specified profit margin, which is payable on a deferred basis in agreed-upon instalments. Murabaha financing receivables represent financial assets held at amortised cost.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are presented on a net basis only when permitted under International Financial Reporting Standards, or for gains and losses arising from a group of similar transactions.

Property and equipment

Property and equipment are initially recorded at cost and stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets. Capital work-in-progress is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Leasehold assets are depreciated on a straight-line basis over the shorter of the useful life of the assets or the term of the lease after deducting the estimated residual value from the cost of such assets. The following rates of depreciation are applied:

Office equipment	20% to 25%
Furniture and fixtures	15%
Owned and leased motor vehicles	20%

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

Expenditure for repairs and maintenance are charged to the statement of profit or loss. Expenditure that increases the value or materially extends the life of the related assets is capitalized.

An item of property and equipment and any significant part initially recognised is derecognised 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 derecognised.

The assets' residual values, useful lives and methods of depreciation 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 any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that an intangible asset may be impaired. The amortisation period and the amortisation 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 considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Zakat

The Company is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense is charged to the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Withholding tax

The Company withholds taxes on certain foreign payments as required under the Saudi Arabian Tax Laws. Such withholding tax is recorded as a liability.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to 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 by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is 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, 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.

Dividend distributions

The Company recognizes a liability to make cash dividends distribution to shareholders when the dividends are authorised and no longer at the discretion of the Company. The corresponding amount is directly recognized in statement of changes in equity with a corresponding liability on the statement of financial position.

Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Post-employment benefits

The Company's obligation under employee end-of-service benefit is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Re-measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in employee costs in the statement of profit or loss.

Value added tax (VAT)

Expenses and assets are recognised net of the amount of VAT, except when the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

Provisions

Provisions are recognised 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. When 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.

Transactions in foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of 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.

Revenue

The Company applies appropriate applicable guidance (based on the nature of corresponding transaction) when recognizing revenue. Following are the key sources of Company's revenue and related recognition policy:

a) Income from finance lease and musharika arrangements

Finance lease income is recognised over the period of the lease on a systematic basis, which results in a constant periodic rate of return on the net investment outstanding. Direct costs incurred to generate lease finance income are netted off from lease income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

b) Income from murabaha receivables

Interest income from murabaha receivables is recognised using the effective interest method over the term of the arrangement.

c) Income from servicing (agency) agreements

Income from servicing arrangements is recognized as related services are provided. The Company applies a five-step model to determine when to recognize revenue and at what amount.

- Step:1 Identify the contract with the customer
- Step:2 Identify the performance obligations in the contract
- Step:3 Determine the transaction price
- Step:4 Allocate the transaction price to the performance obligations in the contract
- Step:5 Recognize revenue when or as the entity satisfies a performance obligation

Each specified distinct service promised to the customer in the contract is identified and evaluated whether the entity under the consideration obtains control of the service before it is transferred to the customer. Revenue is measured on the consideration specified in the contract with the customer and excludes amount collected on behalf of the third parties.

Revenue is recognized when obligations under the terms of a contract with the customer are satisfied; generally, this occurs with the transfer of control of the services. Revenue is measured at the amount of consideration the Company expects to receive in exchange for providing services. Sales, value added tax, and other taxes collected concurrent with revenue-producing activities are excluded from revenue.

Government grant

The Company recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Company will comply with the conditions associated with the grant. The benefit of a government loan or deposit facility at a below market rate of interest / interest free loan is treated as a government grant related to income. The below-market rate / interest free loan is recognized and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest / interest free element is measured as the difference between the initial fair value of the loan and the proceeds received. The benefit is accounted for in accordance with IAS 20 "Accounting for government grants and disclosure of government assistance ". Government grant is recognised in statement of income on a systematic basis over the period(s) in which the Company recognises related costs which the grant is intended to compensate and it presented together with the costs intended to be compensated.

4. CASH AND BANK BALANCES

Cash and bank balances at 31 December comprises of the following:

	<u>2021</u>	<u>2020</u>
Cash in hand	155,441	150,438
Bank balances (note 4.1)	<u>47,601,695</u>	<u>30,615,350</u>
	<u>47,757,136</u>	<u>30,765,788</u>

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

4. CASH AND BANK BALANCES (continued)

- 4.1 At 31 December, all bank balances are maintained with local banks, which are rated at investment grade levels. Moreover, balance with banks includes SR 19.5 million (2020: SR 21.7 million) maintained with a related party (note 17).
- 4.2 The carrying value of bank balances (included above) represents its maximum exposure to credit risk without taking into account any collateral and other credit enhancement. Moreover, none of the bank balances were credit impaired or had undergone significant increase in credit risk at the reporting date

5. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

Advances, prepayments and other receivables at 31 December comprise of the following:

	<u>2021</u>	<u>2020</u>
Advance payment (note 5.1)	34,684,115	17,324,938
Trade and other receivables (note 5.2)	26,030,495	28,660,355
Receivable from musharika partner	--	15,558,610
Prepaid expenses	1,545,822	4,620,540
Advances to employees	2,701,022	3,427,820
	<u>64,961,454</u>	<u>69,592,263</u>

- 5.1 Advance payments represents advance payment to suppliers amounting to SR 30.1 million and payment of SR 4.5 million made to a musharika partner under musharika arrangements.
- 5.2 Trade and other receivables include insurance paid on behalf of customers amounting to SR 19 million (31 December 2020: SR 15.9 million), against which an expected credit loss allowance of SR 12.6 million (31 December 2020: SR 12.2 million) has been maintained. As at 31 December 2021, trade and other receivables amounting to SR 13.7 million are overdue by more than one year. Moreover, the carrying value of trade and other receivables (included above) represents its maximum exposure to credit risk without taking into account any collateral and other credit enhancement.

6. NET INVESTMENT IN FINANCE LEASES

	<u>2021</u>	<u>2020</u>
Gross investment in finance leases (note 6.1)	1,243,948,133	1,444,691,418
Less: unearned finance income and modification losses (note 6.2)	(81,127,261)	(114,341,155)
Net investment in finance leases (before allowance for expected credit losses)	1,162,820,872	1,330,350,263
Less: allowance for expected credit losses on finance leases receivables (note 6.3)	(255,653,982)	(118,493,303)
Net investment in finance leases	<u>907,166,890</u>	<u>1,211,856,960</u>

- 6.1 The gross investment in finance leases include SR 0.5 million (31 December 2020: SR 0.9 million) receivable from related parties (note 17).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

6. NET INVESTMENT IN FINANCE LEASES (continued)

- 6.2 Unearned finance income as at 31 December 2021 includes modification loss amounting to SR 9.1 million (2020: SR 10.9).

The contractual maturity of the gross investment in finance lease and net investment in finance leases is as follows:

	<u>Years</u>	<u>Gross Investment</u>	<u>Unearned finance income and modification losses</u>	<u>Net investment (before allowance for expected credit losses)</u>
31 December 2021				
Current portion	2022	860,952,543	(59,468,557)	801,483,986
Non-current portion	2023	285,904,415	(18,397,106)	267,507,309
	2024	93,925,302	(3,214,709)	90,710,593
	2025	3,165,873	(46,889)	3,118,984
	2026	--	--	--
Total non-current portion		382,995,590	(21,658,704)	361,336,886
Total		1,243,948,133	(81,127,261)	1,162,820,872
Less: allowance for expected credit losses on finance leases				(255,653,982)
				907,166,890
	<u>Years</u>	<u>Gross investment</u>	<u>Unearned finance income and modification losses</u>	<u>Net investment (before allowance for expected credit losses)</u>
31 December 2020				
Current portion	2021	992,526,909	(76,023,250)	916,503,659
Non-current portion	2022	304,771,784	(29,320,996)	275,450,788
	2023	126,214,063	(7,940,535)	118,273,528
	2024	19,071,252	(989,460)	18,081,792
	2025	2,107,410	(66,914)	2,040,496
Total non-current portion		452,164,509	(38,317,905)	413,846,604
Total		1,444,691,418	(114,341,155)	1,330,350,263
Less: allowance for expected credit losses on finance leases				(118,493,303)
				1,211,856,960

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

6. NET INVESTMENT IN FINANCE LEASES (continued)

- 6.3 The movement in allowance for expected credit losses against finance lease receivables is as follows:

	<u>2021</u>	<u>2020</u>
At 1 January	118,493,303	303,201,852
Charge for the year	181,966,511	72,633,413
Transfers (note 6.7)	3,176,345	7,462,596
Written-off during the year (note 6.8)	(47,982,177)	(264,804,558)
At 31 December	<u>255,653,982</u>	<u>118,493,303</u>

- 6.4 As at 31 December 2021, 13% of the gross investment in finance leases corresponds to top five customers (2020: 18%).

- 6.5 The Company has entered into musharika agreements with certain investors to finance its leasing business under syndication arrangements. In accordance with the provisions of these agreements, syndicate investors participate in underlying leasing transactions on agreed basis.

Total outstanding balance of such agreements as at 31 December 2021 amounted to SR 722 million (2020: SR 619 million). The Company has recorded these transactions as net investment in finance leases up to the extent of its share in the musharika arrangement. As at 31 December 2021, the investments in musharika, amounted to SR 76.6 million (2020: SR 59.6 million), which represents the Company's maximum exposure in respect of these agreements.

- 6.6 The Company in ordinary course of its business, holds collateral in respect of the finance lease receivables (being the title of assets leased out) in order to mitigate the credit risk associated with them. These collaterals are not readily convertible into cash and are intended to be repossessed and disposed off in case the customer defaults.

- 6.7 During the year ended 31 December 2021, the Company bought back a securitised finance lease receivables pool amounting SR 13.8 million (2020: SR 9.1 million). As such the expected credit loss allowance amounting to SR 3.1 million (2020: SR 7.4 million) maintained against the corresponding margin deposit (note 8) has been transferred to the net investment in finance lease.

- 6.8 As per management's established policy, finance lease and murabaha receivables are written off when there is no realistic prospect of recovery. However, such receivables where written off, could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. However, write offs during the year include an amount of SR 0.4 million representing receivables which have been written off as a result of negotiated settlements with the respective counterparties and are therefore, not subject to further recovery proceedings.

- 6.9 As at 31 December 2021, finance lease receivables that are neither past due nor impaired amount to SR 787 million (2020: SR 450 million). Moreover, finance lease receivables that are not impaired but past due for: less than three months, more than three months but less than nine months and more than nine months but less than twelve months amounted to SR 39 million (2020: SR 73 million), SR 36 million (2020: SR 81 million) and SR 17 million (2020: SR 38 million), respectively. Furthermore, finance lease receivables past due for twelve months or more (considered impaired) amounted to SR 283 million (2020: SR 233 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

6. NET INVESTMENT IN FINANCE LEASES (continued)

6.9.1 As at 31 December 2021, finance lease receivables include an amount of SR 285 million corresponding to customers which have filed for bankruptcy and which are under significant litigation and therefore, subject to specific assessment of credit risk for the purpose of determination from expected credit loss amounting to SR 214 million.

7. MURABAHA FINANCING RECEIVABLES

	<u>2021</u>	<u>2020</u>
Murabaha financing receivables	761,239,455	446,043,432
Less: unearned finance income	(75,201,650)	(41,386,686)
Murabaha financing receivables (before allowance for expected credit losses)	686,037,805	404,656,746
Less: allowance for expected credit losses on murabaha financing receivables (note 7.1)	(68,630,176)	(15,455,338)
Murabaha financing receivables	<u>617,407,629</u>	<u>389,201,408</u>

7.1 The movement in allowance for expected credit losses on murabaha financing receivables is given below:

	<u>2021</u>	<u>2020</u>
At 1 January	15,455,338	10,666,641
Charge for the year	53,343,249	8,014,990
Written off during the year	(168,411)	(3,226,293)
At 31 December	<u>68,630,176</u>	<u>15,455,338</u>

The contractual maturity of the murabaha receivables is as follows:

	<u>Years</u>	<u>Gross murabaha</u>	<u>Unearned income and modification losses</u>	<u>Net investment Investment in murabaha receivables</u>
<u>31 December 2021</u>				
Current portion	2022	341,121,798	(39,661,938)	301,459,860
Non-current portion	2023	224,012,811	(20,843,416)	203,169,395
	2024	119,818,300	(9,372,037)	110,446,263
	2025	40,364,949	(4,387,318)	35,977,631
	2026	35,921,597	(936,941)	34,984,656
Total non-current portion		420,117,657	(35,539,712)	384,577,945
Total		<u>761,239,455</u>	<u>(75,201,650)</u>	686,037,805
Less: allowance for expected credit losses on murabaha financing receivables				(68,630,176)
				<u>617,407,629</u>

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

7. MURABAHA FINANCING RECEIVABLES (continued)

	<u>Years</u>	<u>Gross murabaha</u>	<u>Unearned income and modification losses</u>	<u>Net investment Investment in murabaha receivables</u>
<u>31 December 2020</u>				
Current portion	2021	<u>249,863,071</u>	<u>(24,585,236)</u>	<u>225,277,835</u>
Non-current portion	2022	110,125,143	(12,039,729)	98,085,414
	2023	64,145,510	(4,171,282)	59,974,228
	2024	21,857,874	(590,439)	21,267,435
	2025	<u>51,834</u>	<u>--</u>	<u>51,834</u>
Total non-current portion		<u>196,180,361</u>	<u>(16,801,450)</u>	<u>179,378,911</u>
Total		<u>446,043,432</u>	<u>(41,386,686)</u>	<u>404,656,746</u>
Less: allowance for expected credit losses on murabaha financing receivables				<u>(15,455,338)</u> <u>389,201,408</u>

As at 31 December 2021, murabaha financing receivables that are neither past due nor impaired amount to SR 662 million (2020: SR 393 million). Moreover, murabaha financing receivables that are not impaired but past due for less than three months amount to SR 15.6 million (2020: SR 9.1 million). Furthermore, impaired murabaha financing receivables past due for more than three months but less than nine months amount to SR 6.3 million (2020: SR 1 million), murabaha receivables past due for more than nine but less than 12 months amount to SR 1.3 million (2020: Nil) and receivables overdue for more than twelve months amount to SR Nil (2020: SR 0.2 million).

8. MARGIN DEPOSITS

These represent funds in restricted bank accounts against receivables sold to the banks as required under certain securitization and agency agreements. This amount represents the maximum liability (against defaulted receivables, if any) of the Company according to the relevant securitization and agency agreements. The carrying value of margin deposit as at the reporting date represents its maximum exposure to credit risk without taking into account any collateral and other credit enhancement. These margin deposits have been withdrawn during the year ended 31 December 2021 pursuant to the buyback of the corresponding portfolio (note 6.7).

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

9. PROPERTY AND EQUIPMENT

Property and equipment at 31 December 2021 comprise of the following:

	<u>Office equipment</u>	<u>Furniture and fixtures</u>	<u>Leased vehicles</u>	<u>Motor vehicles</u>	<u>Capital work in progress</u>	<u>Total</u>
Cost:						
At 1 January 2021	8,963,715	6,503,414	1,002,710	597,294	--	17,067,133
Additions	1,181,474	1,752	--	--	29,501	1,212,727
Disposals	(5,100)	--	--	--	--	(5,100)
At 31 December 2021	10,140,089	6,505,166	1,002,710	597,294	29,501	18,274,760
Depreciation:						
At 1 January 2021	7,316,495	5,755,681	1,002,710	443,236	--	14,518,122
Charge for the year	945,353	235,757	--	42,968	--	1,224,078
Disposals	(5,100)	--	--	--	--	(5,100)
At 31 December 2021	8,256,748	5,991,438	1,002,710	486,204	--	15,737,100
Net book amounts:						
At 31 December 2021	1,883,341	513,728	--	111,090	29,501	2,537,660

Property and equipment at 31 December 2020 comprise of the following:

	<u>Office equipment</u>	<u>Furniture and fixtures</u>	<u>Leased vehicles</u>	<u>Motor vehicles</u>	<u>Capital work in progress</u>	<u>Total</u>
Cost:						
At 1 January 2020	8,635,014	6,473,363	1,002,710	597,294	146,991	16,855,372
Additions	236,453	19,158	--	--	--	255,611
Disposals	(43,850)	--	--	--	--	(43,850)
Transfers	136,098	10,893	--	--	(146,991)	--
At 31 December 2020	8,963,715	6,503,414	1,002,710	597,294	--	17,067,133
Depreciation:						
At 1 January 2020	6,334,724	5,351,691	1,002,710	387,241	--	13,076,366
Charge for the year	1,025,196	403,990	--	55,995	--	1,485,181
Disposals	(43,425)	--	--	--	--	(43,425)
At 31 December 2020	7,316,495	5,755,681	1,002,710	443,236	--	14,518,122
Net book amounts:						
At 31 December 2020	1,647,220	747,733	--	154,058	--	2,549,011

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

10. RIGHT OF USE ASSETS AND LEASE LIABILITIES

The Company has obtained premises / properties on lease from various lessors, with the right to use such properties against consideration as per mutual agreement.

Movement during the year related to right of use assets and lease liabilities is as follows:

a) Right-of-use assets

The reconciliation of carrying amounts of right-of-use assets are as below:

	<u>2021</u>	<u>2020</u>
Balance at 1 January	9,980,762	2,189,958
Addition during the year	--	9,126,208
Depreciation charge for the year	<u>(3,297,669)</u>	<u>(1,335,404)</u>
At 31 December	<u>6,683,093</u>	<u>9,980,762</u>

b) Lease liabilities

Current and non-current portions of the lease liabilities are as follows:

	<u>2021</u>	<u>2020</u>
Non-current portion of lease liabilities	2,991,528	5,783,503
Current portion of lease liabilities	<u>2,905,119</u>	<u>2,891,752</u>
	<u>5,896,647</u>	<u>8,675,255</u>

Lease liability as at 31 December 2021 include SR 0.85 million (31 December 2020: SR 1.27) pertaining to related party.

c) Movement of lease liabilities:

	<u>2021</u>	<u>2020</u>
At 1 January	8,675,255	1,125,860
Addition	--	8,152,753
Financial charges	533,554	180,285
Repayments	<u>(3,312,162)</u>	<u>(783,643)</u>
At 31 December	<u>5,896,647</u>	<u>8,675,255</u>

d) Depreciation and finance cost

	<u>2021</u>	<u>2020</u>
Depreciation expense (note 10a)	3,297,669	1,335,404
Finance costs (note 10c)	<u>533,554</u>	<u>180,285</u>
	<u>3,831,223</u>	<u>1,515,689</u>

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

10. RIGHT OF USE ASSETS AND LEASE LIABILITIES (continued)

The aging of minimum lease payments together with the present value of minimum lease payments, as of 31 December 2021 and 31 December 2020 are as follows:

	<u>2021</u>		<u>2020</u>	
	<i>Minimum lease payments</i>	<i>Present value of minimum lease payments</i>	<i>Minimum lease payments</i>	<i>Present value of minimum lease payments</i>
Within twelve months	3,027,739	2,905,119	3,035,715	2,891,752
One to three years	3,040,309	2,991,528	6,078,636	5,783,503
Total minimum lease payments	6,068,048	5,896,647	9,114,351	8,675,255
Less: financial charges	(171,401)	--	(439,096)	--
	<u>5,896,647</u>	<u>5,896,647</u>	<u>8,675,255</u>	<u>8,675,255</u>

11. INTANGIBLE ASSETS

Intangible assets at 31 December 2021 comprise of the following:

	<u>Cost</u>	<u>Capital work in progress</u>	<u>Total</u>
Cost:			
At 1 January 2021	11,121,256	334,457	11,455,713
Additions during the year	285,491	558,652	844,143
Write off	--	(12,000)	(12,000)
Transferred from capital work in progress	466,151	(466,151)	--
Disposal	--	--	--
At 31 December 2021	<u>11,872,898</u>	<u>414,958</u>	<u>12,287,856</u>
Amortization:			
At 1 January 2021	(9,025,970)	--	(9,025,970)
Amortized during the year	(915,731)	--	(915,731)
At 31 December 2021	<u>9,941,701</u>	<u>--</u>	<u>9,941,701</u>
Net book value at 31 December 2021	<u>1,931,197</u>	<u>414,958</u>	<u>2,346,155</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

11. INTANGIBLE ASSETS (continued)

Intangible assets at 31 December 2020 comprise of the following:

	<u>Cost</u>	<u>Capital work in progress</u>	<u>Total</u>
Cost:			
At 1 January 2020	10,962,273	71,250	11,033,523
Additions during the year	136,301	297,739	434,040
Transferred from capital work in progress	22,682	(22,682)	--
Disposal	--	(11,850)	(11,850)
At 31 December 2020	11,121,256	334,457	11,455,713
Amortization:			
At 1 January 2020	(8,091,346)	--	(8,091,346)
Amortized during the year	(934,624)	--	(934,624)
At 31 December 2020	(9,025,970)	--	(9,025,970)
Net book value at 31 December 2020	2,095,286	334,457	2,429,743

12. EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On 14 December 2017, the Company subscribed to 2.38% shareholding in Saudi Company for Registration of Financial Leasing Contracts ("Registration Company"), registered in the Kingdom of Saudi Arabia. The Registration Company has been formed for registration of contracts relating to financial leases, amendments, registration and transfer of title deeds of the assets under the finance leases. The investment is not held for trading and the Company has decided to irrevocably classify the investment as FVOCI. Moreover, as at 31 December 2021 and 31 December 2020 the investment is classified under level 3 of fair value hierarchy. Nonetheless, at the reporting date, management believes that the carrying value of the investment approximates its fair value.

13. SHARE CAPITAL

The share capital of the Company is divided into 50,000,000 shares (2020: 50,000,000) of SR 10 each.

a) *Shareholding as at 31 December 2021*

<u>Name of shareholders</u>	<u>Percentage of shareholding</u>	<u>No. of Shares</u>	<u>Amount</u>
Riyad Bank	48.46%	24,230,769	242,307,690
Zahid Group Holding Company Limited	34.62%	17,307,692	173,076,920
Al Yemni Investments	6.92%	3,461,539	34,615,390
Khaled Ahmed Al – Juffali Company	5%	2,500,000	25,000,000
Hussein Alireza Sons Company Limited	5%	2,500,000	25,000,000
Total		50,000,000	500,000,000

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

13. SHARE CAPITAL (continued)

b) Shareholding as at 31 December 2020

<u>Name of shareholders</u>	<u>Percentage of shareholding</u>	<u>No. of Shares</u>	<u>Amount</u>
Riyad Bank	48.46%	24,230,769	242,307,690
Zahid Group Holding Company Limited	34.62%	17,307,692	173,076,920
Al Yemni Investments	6.92%	3,461,539	34,615,390
Khaled Ahmed Al – Juffali Company	5%	2,500,000	25,000,000
Hussein Alireza Sons Company Limited	5%	2,500,000	25,000,000
Total		<u>50,000,000</u>	<u>500,000,000</u>

14. STATUTORY RESERVE

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.

15. EMPLOYEES' DEFINED BENEFIT OBLIGATION

The Company operates an approved unfunded employees' end of service benefits plan ("EOSB") for its employees as required by the Saudi Arabian Labor Law. The amount recognized in the statement of financial position is determined as follows:

	<u>2021</u>	<u>2020</u>
Present value of defined benefit obligation at 31 December 2021	<u>14,426,955</u>	<u>16,995,315</u>

An independent actuarial valuation exercise has been conducted by the Company as at 31 December 2021 and 31 December 2020 to ensure the adequacy of provision for employees' end of service benefits in accordance with the rules stated under the Saudi Arabian Labour Law by using the Projected Unit Credit Method as required under International Accounting Standards 19: Employee Benefits.

The movement in EOSB for the year ended 31 December is as follows:

	<u>2021</u>	<u>2020</u>
Balance as at 1 January	16,995,315	15,527,129
<i>Included in profit or loss</i>		
Current service cost	1,919,339	1,464,003
Interest cost	380,201	414,922
	<u>2,299,540</u>	<u>1,878,925</u>
<i>Included in other comprehensive income</i>		
Actuarial (gain) / loss	(616,528)	730,923
Benefits paid	(4,251,372)	(1,141,662)
Balance as at 31 December	<u>14,426,955</u>	<u>16,995,315</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

15. EMPLOYEES' DEFINED BENEFIT OBLIGATION (continued)

Defined benefit obligation:

a) Actuarial assumptions

The following were the principal actuarial assumptions applied at the reporting date (expressed as weighted averages).

	<u>2021</u>	<u>2020</u>
Discount rate (%)	<u>2.85%</u>	2.41%
Future salary growth (%)	<u>2.50%</u>	3.20%
Retirement age	<u>60</u>	60

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

The weighted-average duration of the defined benefit obligation was 12.94 years (31 December 2020: 11.3 years).

b) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the foregoing actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate (1% movement)	<u>(1,811,583)</u>	<u>2,216,251</u>	(1,895,816)	2,291,647
Future salary growth (1% movement)	<u>2,200,866</u>	<u>(1,833,344)</u>	2,248,428	(1,899,360)

Although the analysis does not take into account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

16. TRADE, ACCRUED AND OTHER PAYABLES

	<u>2021</u>	<u>2020</u>
Trade and other payables (note 16.1)	<u>28,202,055</u>	48,325,433
Accrued financial charges and other expenses	<u>12,637,838</u>	24,284,295
Other payables	<u>40,892,152</u>	28,205,937
	<u><u>81,732,045</u></u>	<u><u>100,815,665</u></u>

16.1 This includes SR 14.98 million (31 December 2020: SR 34.78 million) received from customers in respect of securitization and musharika arrangements pending onward transfer to banks and SR 4.37 million received as an advance from musharika partner under musharika arrangements with respect to new deals with customers.

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

17. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions, which are undertaken at arm's length, mainly pertain to finance leases, agency services, real estate development and technical advisory and approved by the Company's management.

During the year, the Company transacted with the following related parties:

<u>Name</u>	<u>Relationship</u>
Riyad Bank	Shareholder
Khaled Ahmed Al Juffali Company	Shareholder
Haji Hussein Ali Reza Company Limited	Other related party
Al -Wasilah Rent A Car Company Limited	Other related party
Al-Yemni Motors Company Limited	Other related party
Zahid Tractor and Heavy Machinery Company Limited	Other related party
Wared Transport Company	Other related party
Wared Express Company Limited	Other related party
Saudi Company of Site Technology Limited	Other related party
Arabian Company for Marketing Services LLC	Other related party
The Machinery Group LLC (TAMGO)	Other related party
Juffali Industrial Product Company	Other related party
Khaled Ahmed Al Juffali Industrial Company	Other related party
Zahid Travel Group	Other related party
Global Gypsum Co. LTD.,	Other related party
OCS Arabia Company LLC	Other related party
Al Taaqa Alternative Solutions Company Limited	Other related party
Ejar Machinery Rental Alternative Co. Ltd.	Other related party
Juffali Printing Systems Company	Other related party
Khaled Ahmed Juffali Construction Company	Other related party
Nihad Abdullah Arab & Sons Limited Company	Other related party
Board of Directors	Key management personnel
Members of Audit Committee	Key management personnel
Executive Management of the Company	Key management personnel

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Significant related parties transactions for the year ended 31 December and balances arising there from are described as under:

17.1 Due from related parties

17.1.1 Amount due from related parties [included in net investment in finance leases (note 6)]

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transaction</u> <u>during the year</u>		<u>Closing balance</u>	
			<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Khaled Ahmed Al Juffali Industrial Company	Other related party	Gross investment in finance lease	--	--	335,335	644,705
Khaled Ahmed Al Juffali Company	Shareholder	Gross investment in finance lease	--	--	29,747	35,669
Al -Wasilah Rent A Car Company Limited	Other related party	Gross investment in finance lease	--	3,435,505	--	--
Khaled Ahmed Juffali Construction Company	Other related party	Gross investment in finance lease	--	--	--	27,550
Nihad Abdullah Arab & Sons Limited Company	Other related party	Gross investment in finance lease	--	--	160,760	236,128
					525,842	944,052

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

17.1 Due from related parties (continued)

17.1.2 Amount due from related parties (presented separately on statement of financial position)

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transaction during the year</u>		<u>Closing balance</u>	
			<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Saudi Company of Site Technology Limited	Other related party	GPS installation services	--	663,533	--	102,262

17.1.3 Other Related parties balances [included under cash and bank balances (note 4)]

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Balance</u>	
			<u>2021</u>	<u>2020</u>
Riyad Bank	Shareholder	Bank account	<u>29,634,884</u>	<u>21,661,520</u>

17.1.4 Other Related parties balances [included under Advances, prepayments and other receivables (note 5)]

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Balance</u>	
			<u>2021</u>	<u>2020</u>
Juffali Industrial Product Company	Other related party	Advance to Supplier	<u>2,270,100</u>	--

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

17.2 Due to related parties

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transaction during the year</u>		<u>Closing balance</u>	
			<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Saudi Company of Site Technology Limited	Other related party	GPS installation services	472,454	--	10,764	--
Zahid Tractor & Heavy Machinery Co Limited	Other related party	Purchase of leasing equipment	301,132,185	346,511,843	5,975,810	15,781,878
	Other related party	Services rendered	865,867	1,056,209	--	--
OCS Arabia Company LLC	Other related party	Services rendered	1,328	21,935	1,328	--
The Machinery Group LLC (TAMGO)	Other related party	Purchase of leasing equipment	11,317,862	1,142,562	228,206	--
Juffali Printing Systems Company	Other related party	Purchase of leasing equipment	52,762	7,210,484	17,507	--
Board of Directors	Board of Directors	Remuneration to Board of Directors	1,200,000	300,000	1,500,000	300,000
Members of Audit Committee	Members of Audit Committee	Remuneration to Members of Audit Committee	375,000	93,750	93,750	93,750
					<u>7,827,365</u>	<u>16,175,628</u>

17.2.1 Amount due to related parties [included in term loan (note 19)]

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transaction during the year</u>		<u>Closing balance</u>	
			<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Riyadh Bank	Shareholder	Term loan borrowing	361,000,000	170,000,000		
		Term loan repayment	260,666,667	205,000,000	<u>150,333,000</u>	<u>50,000,000</u>

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

17.2 Due to related parties (continued)

17.2.2 Amount due to related parties [included in trade, accrued and other payable (note 16)]

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transaction during the year</u>		<u>Closing balance</u>	
			<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Riyadh Bank	Shareholder	Financial charges on term loan	2,551,148	957,977	863,911	499,810
Al-Yemni Motors Company Limited	Other related party	Purchase of leasing equipment	--	2,769,500	--	--
Arabian Company for Marketing Services LLC	Other related party	Services rendered	41,400	73,422	--	--
Juffali Industrial Product Company	Other related party	Purchase of leasing equipment	56,621,400	18,338,744	--	--
Zahid Travel Group	Other related party	Services rendered	33,642	96,570	--	--
AL TAAQA Alternative Solutions Company Limited	Other related party	Purchase of leasing equipment	--	1,074,100	--	--
EJAR Machinery Rental Alternative Co. Ltd.	Other related party	Purchase of leasing equipment	407,906	2,197,500	--	--
Haji Hussein Ali Reza Company Limited	Other related party	Purchase of leasing equipment	8,009,750	1,690,500	--	--
Wared Transport Company	Other related party	Services rendered	4,747	--	--	--
Nihad Abdullah Arab & Sons Limited Company	Other related party	Services rendered	203,723	196,351	--	--
					<u>863,911</u>	<u>499,810</u>

17.2.3 Amount due to related parties [included in right of use and lease liabilities (note 10)]

<u>Name</u>	<u>Relationship</u>	<u>Closing balance</u>	
		<u>2021</u>	<u>2020</u>
Zahid Tractor & Heavy Machinery Co Limited	Other related party	859,722	1,273,861

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

17.2 Due to related parties (continued)

17.2.4 Included in employee related costs and key management remuneration (note 22)

<u>Name</u>	<u>Nature of transactions</u>	<u>Amount of transaction during the year</u>	
		<u>2021</u>	<u>2020</u>
Key management personnel	Key management remuneration	<u>6,778,490</u>	<u>5,851,742</u>
Compensation of key management personnel of the Company			
		<u>2021</u>	<u>2020</u>
Short-term employee benefits		6,032,855	5,210,542
Post-employment benefits		626,880	559,800
Non-monetary benefits		<u>118,755</u>	<u>81,400</u>
		<u>6,778,490</u>	<u>5,851,742</u>

17.3 No payment has been made to the Board of Directors during the year ended 31 December 2021.

18. NET SERVICING LIABILITY FOR SOLD FINANCE LEASE RECEIVABLE

Movement in net servicing liability for sold finance lease receivable under agency arrangements during the year ended 31 December is analyzed as follows:

	<u>2021</u>	<u>2020</u>
Balance as at 1 January	1,500,593	2,418,973
Amortization for the year	<u>(1,500,593)</u>	<u>(918,380)</u>
Net book value at 31 December	<u>--</u>	<u>1,500,593</u>

Assumptions and their sensitivity involved in the calculation of net servicing assets/ liability

Under the securitization and agency agreements, the Company has been appointed by the banks to service the purchased receivables. Where the Company is appointed to service the derecognized financial assets for a fee, the Company initially recognises either a net servicing asset or a net servicing liability for that servicing contract at its fair value.

The fair value of net servicing asset/ liability is determined based on the present value of estimated future cash flows related to contractually specified servicing fees less servicing costs. The primary determinants of the fair value of net servicing asset/ liability are discount rates, estimates of servicing costs and the fixed servicing fees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

18. NET SERVICING LIABILITY FOR SOLD FINANCE LEASE RECEIVABLES (continued)

Discount rates

Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration the expectation of investor's return and the individual risks of the underlying assets. Such discount rates are adjusted for defaults and prepayments rates based on publicly available market data.

Servicing costs

The management assesses the cost of servicing including salaries and other direct costs. The annual change in the servicing cost represents the increment to the servicing cost as a result of inflation. Also, the calculation of discount rate and servicing cost is sensitive to expected default rate and prepayment risk, which are expected to be minimal.

Variations in one or a combination of these assumptions could materially affect the estimated values of net servicing assets. Evaluation of impairment is performed on a quarterly basis taking into consideration historical trends, past experience and forecasts of defaults and prepayments.

19. TERM LOANS FACILITIES

	<u>2021</u>	<u>2020</u>
Short term facilities (see note 19.1)	235,000,000	666,530,443
Long term facilities (see note 19.2)	506,582,048	81,309,788
SAMA profit free facility (note 31)	138,154,319	--
	<u>879,736,367</u>	<u>747,840,231</u>

19.1 These represent short term loans drawn from various local banks against credit lines of SR 2,182 million (31 December 2020: SR 2,514 million). These facilities carry fixed profit rates and are repayable within 6 months from the statement of financial position date. These facilities are collateralized against promissory notes issued by the Company.

19.2 This represents long term loans from various local banks and long-term loans of SR 65 million received from Social Development Bank ("SDB") under "Monhsa'at Program" and of SR 263 million from SAMA under "Loan Guarantee Program". The purpose is to finance small and medium enterprises under the respective programs. These long-term loans are repayable in fixed monthly instalments with last instalment due in November 2024.

19.3 In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") and accordingly the Company was required to defer payments on lending facilities by eligible MSMEs for the designated periods. In response, the Company was eligible for the deferral of its loan instalment payment to the banks. Accordingly, the Company has recognised total modification gains of SR 24.2 million as of 31 December 2021 out of which modification gains amounting to SR 24 million were unwound as of 31 December 2021 (note 31).

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

19. TERM LOANS FACILITIES (continued)

19.4 The schedule for movement of term loans facilities is as follows:

	<u>Short term facilities</u>	<u>Long term facilities</u>	<u>SAMA profit free facility</u>	<u>Total</u>
As at 1 January 2021	666,530,443	81,309,788	--	747,840,231
Proceeds during the year	610,007,534	498,000,000	142,345,375	1,250,352,909
Modification gains, net and grant income, net (note 31)	3,444,486	305,844	(4,191,056)	(440,726)
Payments during the year	<u>(1,044,982,463)</u>	<u>(73,033,584)</u>	<u>--</u>	<u>(1,118,016,047)</u>
At 31 December 2021	<u>235,000,000</u>	<u>506,582,048</u>	<u>138,154,319</u>	<u>879,736,367</u>
	<u>Short term facilities</u>	<u>Long term facilities</u>	<u>SAMA profit free facility</u>	<u>Total</u>
As at 1 January 2020	669,714,286	56,146,076	--	725,860,362
Proceeds during the year	280,000,000	31,000,000	--	311,000,000
Modification gains, net (note 31)	(3,444,486)	(497,328)	--	(3,941,814)
Payments during the year	<u>(279,739,357)</u>	<u>(5,338,960)</u>	<u>--</u>	<u>(285,078,317)</u>
At 31 December 2020	<u>666,530,443</u>	<u>81,309,788</u>	<u>--</u>	<u>747,840,231</u>

20. ACCRUED ZAKAT

The movement in accrued zakat for the year is as follows:

	<u>2021</u>	<u>2020</u>
At 1 January	351,941	6,626,618
Provided during the year	2,295,736	351,941
Prior year adjustments	--	24,043
Payments during the year	<u>(324,754)</u>	<u>(6,650,661)</u>
At 31 December	<u>2,322,923</u>	<u>351,941</u>

The Company is calculating Zakat accruals for the year ended 31 December 2021 based on the new Zakat rules for financing companies.

Status of assessments

The Company has filled Zakat return for all years up to and including the year ended 31 December 2020. Zakat and tax assessment have been finalized up to the year ended 31 December 2017.

AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

21. REVENUES

	<u>2021</u>	<u>2020</u>
Finance income from finance leases (note 21.1)	84,402,424	100,213,009
Finance income from murabaha financing	33,564,231	27,906,460
Modification losses, net (note 21.3)	6,908,761	(16,091,296)
Grant income (note 31)	5,015,127	--
Income from servicing arrangements, net (note 18)	1,477,709	3,026,312
	<u>131,368,252</u>	<u>115,054,485</u>

21.1 Earned lease income is net of the insurance expense of SR 13.26 million (2020: SR 13.3 million).

21.2 The finance and related income, net is generated entirely from within the Kingdom of Saudi Arabia.

21.3 This represents modification (losses) arising due to payment deferral granted to lease customers pursuant to SAMA support program (note 31) and subsequent unwinding of these modification losses.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2021</u>	<u>2020</u>
Salaries and other employee's benefits	43,101,903	43,599,433
Consultancy charges	4,424,857	2,950,888
Software maintenance and other charges	3,067,319	2,651,031
Communication and networking	1,334,716	1,430,022
Others	4,413,284	5,431,527
	<u>56,342,079</u>	<u>56,062,901</u>

23. FINANCE CHARGES

	<u>2021</u>	<u>2020</u>
Finance charges	7,741,703	10,450,027
Modification gains, net (note 23.1)	3,750,330	(3,941,814)
	<u>11,492,033</u>	<u>6,508,213</u>

23.1 This represents modification gain arising due to payment deferral granted to the Company by lenders pursuant to SAMA Support Program (note 31) and subsequent (unwinding) of such modification gains.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's achieving profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to market risk, credit risk, and liquidity risk.

24.1 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and equity price risk.

Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market commission rates. As at 31 December 2021 and 31 December 2020, the Company is not exposed to significant commission rate risk as its special commission bearing assets and liabilities carry fixed rates.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals during the year. Accordingly, the Company is not exposed to any significant currency risk.

Equity price risk

The Company is not exposed to other price risk such as equity risk and commodity risk as the Company is neither involved in investment in trading securities nor the commodities.

24.1 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk on cash and bank balances, net investment in finance lease, murabaha financing receivables, due from related parties, net deferred consideration receivable, employees' receivables and other receivables. The Company has established procedures to manage credit exposure including, credit approvals, credit limits, collateral and guarantee requirements. These procedures are based on the Company's internal guidelines.

Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular segment of customers.

The Company manages concentration of credit risk exposure through diversification of activities and sale of future net investment in finance lease receivables to different banks through purchase and agency agreements. However, the Company mitigates its credit risk through evaluation of credit worthiness internally and by obtaining promissory notes and by retaining the title of the asset leased out. An allowance for doubtful finance lease and murabaha financing receivable is maintained at a level which, in the judgement of management, is adequate to provide for impairment losses on delinquent receivables.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

All finance leases are secured mainly through promissory notes and by retaining the title of the assets leased out and generate a fixed rate of commission for each contract. The title of the assets under finance lease agreements is held in the name of the Company as collateral to be repossessed, in case of default by the customer. For credit risk arising from financial assets of the Company, including sold lease receivables – under securitization and agency arrangements (to the extent of margin deposits or guarantee amount – note 8).

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	<u>2021</u>	<u>2020</u>
Bank balances	47,601,695	30,615,350
Advances, prepayments and other receivables	26,030,495	28,660,355
Net investment in finance leases	1,162,820,872	1,330,350,263
Murabaha receivables	<u>686,037,805</u>	<u>404,656,746</u>
Total maximum credit exposure	<u>1,922,490,867</u>	<u>1,794,282,714</u>

24.2 Liquidity risk

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

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2021 and 31 December 2020, based on contractual payment dates:

<u>2021</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>More than 12 months</u>	<u>Total</u>
Trade, accrued and other payables	35,755,688	45,976,357	--	81,732,045
Due to related parties	7,827,365	--	--	7,827,365
Term loans	213,244,031	215,076,301	451,416,035	879,736,367
Employees' defined benefit liabilities	--	--	14,426,955	14,426,955
	<u>256,827,084</u>	<u>261,052,658</u>	<u>465,842,990</u>	<u>983,722,732</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

<u>2020</u>	Less than 3 <u>months</u>	3 to 12 <u>months</u>	More than <u>12 months</u>	<u>Total</u>
Trade, accrued and other payables	47,508,695	53,306,970	--	100,815,665
Due to related parties	15,781,878	393,750		16,175,628
Term loans	227,034,279	465,758,106	55,047,846	747,840,231
Employees' defined benefit liabilities	--	--	16,995,315	16,995,315
	<u>290,324,852</u>	<u>519,458,826</u>	<u>72,043,161</u>	<u>881,826,839</u>

a. Capital Management

The primary objectives of the Company's capital management are to safeguard its ability to continue as a going concern, maintain healthy capital ratios in order to support its business and to provide an optimal return to its shareholders.

The Company manages its capital structure and makes adjustments to it in light of the changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 31 December 2020.

The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Company's law and SAMA. SAMA requires Finance Companies engaged in financing other than real estate, to maintain aggregate financing to capital ratio of three times.

	<u>2021</u>	<u>2020</u>
Aggregate financing to capital ratio (Net investment in finance lease plus Murabaha financing receivables divided by total equity)	2.32 times	1.91 times

25. FINANCE LEASE RECEIVABLES – SECURITIZATION AND AGENCY AGREEMENTS

In accordance with the terms of certain securitization and agency agreements, the Company had sold finance lease receivables to the banks.

The Company continued to manage these off statements of financial position finance lease receivables as a servicer in accordance with the securitization and agency agreements entered into with the banks (note 6) for an agreed fee which is disclosed as revenue (note 18). These receivables were secured by promissory notes from the customers. During the year, Company bought back a securitised finance lease receivables and recovered the margin deposit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

25. FINANCE LEASE RECEIVABLES – SECURITIZATION AND AGENCY AGREEMENTS

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

	<u>2021</u>	<u>2020</u>
Balance of outstanding finance lease receivables relating to securitization	--	22,135,693

The maturity analysis of above outstanding finance lease receivables is as follows:

31 December 2021	<u>Up to 1 year</u>	<u>More than 1 year</u>
Securitization agreements	--	--
 31 December 2020	 <u>Up to 1 year</u>	 <u>More than 1 year</u>
Securitization agreements	22,135,693	--

26. PRESENTATION IMPROVEMENT

During the year ended 31 December 2021, the Company, based on an internal analysis, determined that the presentation of modification losses (note 31) separately from modification gains (note 31), that have arisen in relation to the SAMA support program, results in a better and enhanced disclosure of relevant information for the users of the financial statements. Accordingly, for all periods presented in these financial statements, the modification losses (net of unwinding impact) arising in relation to deferral of lease payments have been presented as a deduction from revenue, while modification gain (net of unwinding impact) in relation to deferral of term loan payments granted to the Company, have been presented as a deduction from finance charges.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at the reporting date, the management of the Company believes that the carrying values of the Company's financial assets and net investment in finance lease approximate their respective fair values.

The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

28. CONTINGENCIES AND COMMITMENTS

There were no contingencies or commitments at 31 December 2021 and 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

29. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net (loss) / profit for the year by the weighted average number of shares outstanding during the year. The calculation of diluted earnings per share is not applicable to the Company.

30. PRONOUNCEMENTS ISSUED AND NOT YET EFFECTIVE

The following is a brief on the other new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2022. The Company has opted not to early adopt these pronouncements and they do not have a significant impact on the financial statements of the Company.

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1-Apr-21	Amendments to IFRS 16: Leases for COVID-19 rent related concessions : Extension of the practical expedient	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications.
1-Jan-22	A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16	<p>Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.</p> <p>Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income.</p> <p>Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.</p> <p>Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.</p>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

30. PRONOUNCEMENTS ISSUED AND NOT YET EFFECTIVE

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1-Jan-24	Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities	These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period.
1-Jan-23	Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.
1-Jan-23	Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction	These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.
1-Jan-23	IFRS 17, 'Insurance contracts', as amended in June 2020	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

31. 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 experiencing multiple waves of infections despite having previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date. During the prior year ended 31 December 2020, management performed a detailed assessment to ascertain the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

31. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS (continued)

The Company continues to evaluate the current situation through conducting stress-testing scenarios on expected movements of oil prices and other macroeconomic variables and their impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the impact of COVID-19 outbreak has had on its normal operations and financial performance. The steps taken by management includes ongoing review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The credit reviews also take into consideration the impact of the Government and SAMA support relief programs.

The prevailing economic conditions which have been materially affected by the ongoing pandemic, have necessitated the Company 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 expected credit losses and revisions to the scenario probabilities currently being used by the Company in ECL estimation. During the year ended 31 December 2021, the Company made certain adjustments to the macroeconomic factors and scenario weightings used for the determination of ECL. The Company has also carried out a rigorous reassessment of key assumptions, ECL models as well as specific credit impaired exposures to ensure that these continue to comprehensively capture the expected credit losses pertaining to the lease and murabaha portfolios. The assessment comprised of granular analysis of those non-performing exposures which continue to be impacted by the COVID 19 pandemic and are reflective of significantly higher credit risk and therefore warrant individual assessment (note 6.9.1).

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.

SAMA support programs and initiatives

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises (“MSME”) as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Arabian Riyals

31. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS (continued)

As part of the deferred payments program launched by SAMA in March 2020 and with a number of extensions to the program subsequently announced, the Company is required to defer payments on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower’s potential cash flow issues. As part of the deferred payments program, and with further extensions to the program till March 2022 announced subsequently, the Company has accordingly deferred payments and extended maturities on lending facilities to all eligible MSMEs. The Company continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk.

The accounting impact of the above changes in terms of the credit facilities was assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in total modification losses amounting to SR 35.7 million to date of which SR 7.7 million has been recorded during the year ended 31 December 2021 (31 December 2020: SR 28 million). Out of these modification losses, during the year ended 31 December 2021, SR 14.6 million (31 December 2020: SR 12 million) has been unwound.

Furthermore, in accordance with the PSFSP, the Company was also eligible for the deferral of its loan instalment payment to the banks. Accordingly, the Company has recognised total modification gains of SR 24.2 million as of 31 December 2021 out of which modification gains amounting to SR 24 million were unwound until 31 December 2021 (including SR 8.7 million unwound during the year ended 31 December 2021).

Under Loan Guarantee Program by SAMA, the Company has received medium term loans of SR 263 million until 31 December 2021 (including SR 232 million received during the year ended 31 December 2021). This amount has been utilized by the Company to finance MSME loans qualifying under criteria approved by Kafalah.

Furthermore, during the year ended 31 December 2021, in order to compensate for the costs that the Company has incurred under the SAMA’s deferred payments program, the Company received a profit free deposit from SAMA amounting to SR 142.3 million, carrying a maturity of 18 months (included under Term loans facilities) on the statement of financial position. The profit free element on this deposit qualifies as government grant (representing the difference between the fair value and the face value of the profit free deposit upon initial recognition and amounting to SR 5.02 million) based on communication from SAMA and the nature and purpose of the facility. Accordingly, it has been included under Revenue, net, on the statement of profit or loss wherein the modification losses, net arising due to lease payment deferrals are also included.

32. BOARD OF DIRECTORS’ APPROVAL

These financial statements were approved by the Board of Directors on 27 Rajab 1443H, corresponding to 28 February 2022.