

**AJIL FINANCIAL SERVICES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED FINANCIAL
STATEMENTS AND REVIEW REPORT**

**FOR THE THREE-MONTH AND SIX-MONTH
PERIODS ENDED 30 JUNE 2022**

AJIL FINANCIAL SERVICES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month and six-month periods ended 30 June 2022

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the shareholders of
AJIL Financial Services Company
(a Saudi Closed Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed statement of financial position of AJIL Financial Services Company (a Saudi Closed Joint Stock Company) (the "Company") as at 30 June 2022, and the related interim condensed statement of comprehensive income for the three-month and six-month periods then ended, and the interim condensed statements of changes in shareholders' equity and cash flows for the six-month period then ended and other explanatory notes. The Company's management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34) as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

Other Matter

The financial statements of the Company for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 6 March 2022 (corresponding to 3 Sha'ban 1443H). Further, the interim condensed financial statements for the three-month and six-month periods ended 30 June 2021 were reviewed by another auditor who expressed their unmodified conclusion on those interim condensed financial statements on 2 August 2021G (corresponding to 23 Duh Al-Hijjah 1442H).

for Ernst & Young Professional Services



Ahmed Ibrahim Reda
Certified Public Accountant
License No. 356

Jeddah: 4 Muharram 1444H
2 August 2022G



AJIL FINANCIAL SERVICES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three-month and six-month periods ended 30 June 2022

		<i>For the three-month period ended 30 June 2022</i>	<i>For the three-month period ended 30 June 2021</i>	<i>For the six-month period ended 30 June 2022</i>	<i>For the six-month period ended 30 June 2021</i>
	<i>Note</i>	<i>Unaudited SR</i>	<i>Unaudited SR</i>	<i>Unaudited SR</i>	<i>Unaudited SR</i>
Revenue, net	3	34,391,373	26,821,127	70,261,824	58,942,256
Finance cost, net	4	(3,059,837)	(2,699,293)	(6,499,355)	(1,812,091)
		31,331,536	24,121,834	63,762,469	57,130,165
General and administrative expenses		(14,904,773)	(13,824,650)	(29,342,214)	(27,699,787)
Depreciation of property and equipment		(310,436)	(306,560)	(612,302)	(614,250)
Depreciation of right of use assets		(808,410)	(722,938)	(1,563,155)	(1,445,876)
Amortization of intangibles		(231,237)	(234,747)	(462,364)	(471,300)
PROFIT BEFORE EXPECTED CREDIT LOSSES		15,076,680	9,032,939	31,782,434	26,898,952
Expected credit losses on financial assets	7 & 8	(10,699,026)	(36,168,891)	(23,602,568)	(76,834,782)
PROFIT / (LOSS) FOR THE PERIOD BEFORE ZAKAT		4,377,654	(27,135,952)	8,179,866	(49,935,830)
Zakat	5	(779,589)	(148,812)	(1,559,178)	(297,623)
NET PROFIT / (LOSS) FOR THE PERIOD		3,598,065	(27,284,764)	6,620,688	(50,233,453)
OTHER COMPREHENSIVE INCOME		-	-	-	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		3,598,065	(27,284,764)	6,620,688	(50,233,453)

The attached notes 1 to 16 form part of these unaudited interim condensed financial statements.

AJIL FINANCIAL SERVICES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2022

		<i>30 June 2022 Unaudited SR</i>	<i>31 December 2021 Audited SR</i>
	<i>Note</i>		
ASSETS			
Cash and cash equivalents		70,674,236	47,757,136
Advances, prepayments and other receivables	6	34,373,142	64,961,454
Net investment in finance leases	7	791,415,048	907,166,890
Murabaha financing receivables	8	679,328,880	617,407,629
Property and equipment		2,776,193	2,537,660
Right of use assets		5,119,938	6,683,093
Intangible assets		2,390,986	2,346,155
Equity investment at fair value through other comprehensive income		892,850	892,850
TOTAL ASSETS		1,586,971,273	1,649,752,867
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9	500,000,000	500,000,000
Statutory reserve		100,572,044	100,572,044
Retained earnings		66,884,818	60,264,130
Actuarial losses on employees' defined benefit liabilities		(3,025,609)	(3,025,609)
TOTAL EQUITY		664,431,253	657,810,565
LIABILITIES			
Trade payables, accrued and other liabilities		79,767,691	81,732,045
Due to related parties	10	16,402,616	7,827,365
Lease liabilities		5,239,957	5,896,647
Term loans	11	804,957,044	879,736,367
Provision for zakat	5	1,410,078	2,322,923
Employees' defined benefit liabilities		14,762,634	14,426,955
TOTAL LIABILITIES		922,540,020	991,942,302
TOTAL EQUITY AND LIABILITIES		1,586,971,273	1,649,752,867

The attached notes 1 to 16 form part of these unaudited interim condensed financial statements.

AJIL FINANCIAL SERVICES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the six-month period ended 30 June 2022

	<i>Share capital SR</i>	<i>Statutory reserve SR</i>	<i>Retained earnings SR</i>	<i>Actuarial losses on employees' defined benefit liabilities SR</i>	<i>Total SR</i>
Balance as at 1 January 2022	500,000,000	100,572,044	60,264,130	(3,025,609)	657,810,565
Net profit for the period	-	-	6,620,688	-	6,620,688
Balance as at 30 June 2022 (Unaudited)	500,000,000	100,572,044	66,884,818	(3,025,609)	664,431,253
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 period	-	-	(50,233,453)	-	(50,233,453)
Balance as at 30 June 2021 (Unaudited)	500,000,000	100,572,044	189,951,408	(3,642,137)	786,881,315

The attached notes 1 to 16 form part of these unaudited interim condensed financial statements.

AJIL FINANCIAL SERVICES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six-month period ended 30 June 2022

		<i>For the six-month period ended 30 June 2022 Unaudited SR</i>	<i>For the six-month period ended 30 June 2021 Unaudited SR</i>
	<i>Note</i>		
OPERATING ACTIVITIES			
Profit / (loss) for the period before zakat and income tax		8,179,866	(49,935,830)
<i>Adjustments for:</i>			
Depreciation of property and equipment		612,302	614,250
Amortization of right of use assets		1,563,155	1,445,876
Amortization of intangibles		462,364	471,300
Expected credit losses on financial assets	7 & 8	23,602,568	76,834,782
Employees' defined benefit liabilities		1,988,634	1,494,683
Gain on disposal of property and equipment		(1,937)	(115)
Unwinding of modification gain on deferment of term loans	4	100,107	168,594
Unwinding of modification loss on net investment in finance lease	3	(4,220,988)	(1,008,717)
Finance charges		4,341,726	1,643,497
Operating profit before changes in operating assets and liabilities		36,627,797	31,728,320
<i>Changes in operating assets and liabilities</i>			
Net investment in finance leases		94,937,469	43,273,732
Murabaha financing receivables		(60,488,458)	(21,733,759)
Advances, prepayments and other receivables		30,588,312	25,121,297
Due from related parties		-	(2,547)
Net servicing liability for sold finance lease receivables		-	(924,001)
Trade, accrued and other liabilities		(1,964,354)	(7,851,719)
Due to related parties		8,575,251	27,817,244
Margin deposits		-	8,931,975
Cash from operations		108,276,017	106,360,542
Zakat paid	5	(2,472,023)	(324,754)
Finance charges paid		(4,441,833)	(1,328,780)
Employee's terminal benefits paid		(1,652,955)	(2,888,152)
Net cash from operating activities		99,709,206	101,818,856
INVESTING ACTIVITIES			
Purchase of property and equipment and intangibles		(1,366,463)	(565,995)
Proceeds from disposal of property and equipment		10,370	115
Net cash used in investing activities		(1,356,093)	(565,880)
FINANCING ACTIVITIES			
Proceeds from term loans		350,001,043	191,000,000
Repayments of term loans		(424,780,366)	(171,083,145)
Repayment of principal portion of lease liabilities		(656,690)	(500,199)
Net cash (used in) / from financing activities		(75,436,013)	19,416,656
NET INCREASE IN CASH AND CASH EQUIVALENTS		22,917,100	120,669,632
Cash and cash equivalents at the beginning of the period		47,757,136	30,765,788
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		70,674,236	151,435,420

The attached notes 1 to 16 form part of these unaudited interim condensed financial statements.

AJIL FINANCIAL SERVICES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

At 30 June 2022

1 ORGANIZATION AND 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 Al-Akhirah 1429H (corresponding to 22 June 2008), and according to Companies Law Provisions issued by Royal Decree number M/6 dated 27 Dhul-Qi'dah 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 objectives of the Company are to engage in financing activities via finance leasing (and other related products) of projects in the industrial, transportation, agriculture, trading sectors and other skilled professions along with finance leasing of fixed and moveable assets including but not limited to industrial buildings, warehouses, production equipment, machinery, medical equipment, building equipment, transportation equipment, all kinds of vehicles, office equipment and computers.

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 Sha’ban 1433H (corresponding to 2 July 2012) and the Royal Decree No. 51 dated 13 Sha’ban 1433H (corresponding to 3 July 2012) and its implementing regulations were issued by SAMA for conducting lease financing business in the Kingdom of Saudi Arabia.

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

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

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

The results for the six-month period ended 30 June 2022 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2022.

2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

2.1 Basis of measurement

These interim condensed financial statements have been prepared on a historical cost convention using accrual basis of accounting, except for the equity investments measured at fair value through other comprehensive income (“FVOCI”).

These interim condensed financial statements have been prepared on going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

AJIL FINANCIAL SERVICES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)

At 30 June 2022

2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

2.2 Statement of compliance

The interim condensed financial statements of the Company as at and for the period ended 30 June 2022 have been prepared in accordance with International Accounting Standard 34 “*Interim Financial Reporting*” (IAS 34) as endorsed in the Kingdom of Saudi Arabia.

The interim condensed statement of financial position is presented in descending order of liquidity, as this presentation is more appropriate to the Company’s operations.

These interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s annual financial statements for the year ended 31 December 2021.

2.3 Functional and presentational currency

These interim condensed financial statements have been presented in Saudi Riyals (“SR”), which is also the functional and presentation currency of the Company, except as otherwise indicated.

2.4 Significant accounting judgments, estimates and assumptions

The preparation of interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed financial statements, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty including the risk management policies were the same as those that applied to the annual financial statements as at and for the year ended 31 December 2021.

2.5 Significant accounting policies

The accounting policies, used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2021, except for the change in accounting policies due to adoption of new standards or amendment to the relevant existing standard effective as of 1 January 2022 as explained below.

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2022, but do not have an impact on the interim condensed financial statements of the Company.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Company cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments had no impact on the interim condensed financial statements of the Company as there were no onerous contracts identified during the period.

AJIL FINANCIAL SERVICES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)
At 30 June 2022

2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

2.5 Significant accounting policies (continued)

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the interim condensed financial statements of the Company as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments arisen during the period.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the interim condensed financial statements of the Company as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

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

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

These amendments had no impact on the interim condensed financial statements of the Company as there were no modifications of the Company's financial instruments during the period.

2.6 Standards issued not yet effective

As at the date of authorization of these financial statements, the following Standards, Amendments to Standards and Annual Improvements have been issued by the International Accounting Standards Board but are not yet effective and have not been adopted by the Company:

New Standards, Amendments to Standards and	Description	Effective for annual periods beginning on or after
IFRS 17	Insurance Contracts	1 January 2023
IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
IAS 8	Definition of Accounting Estimates	1 January 2023
IAS 1 & IFRS Practice statement 2	Disclosure of Accounting Policies	1 January 2023
IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

AJIL FINANCIAL SERVICES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)

At 30 June 2022

3 REVENUE, NET

	<i>For the three-month period ended 30 June 2022</i>	<i>For the three-month period ended 30 June 2021</i>	<i>For the six-month period ended 30 June 2022</i>	<i>For the six-month period ended 30 June 2021</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Finance income from finance leases (note 3.1)	18,180,065	19,538,483	37,206,433	41,382,698
Finance income from murabaha financing	14,056,897	7,703,661	26,840,040	15,578,173
Unwinding of modification losses, net (note 3.3)	995,878	49,669	4,220,988	1,008,717
Grant income (note 14)	1,158,533	-	1,994,363	-
Income from servicing arrangements, net	-	(470,686)	-	972,668
	34,391,373	26,821,127	70,261,824	58,942,256

3.1 Income is net of the insurance expense of SR 5.6 million (30 June 2021: SR 6.7 million).

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

3.3 This represents modification losses arising due to payment deferral granted to lease customers pursuant to SAMA support program net off subsequent unwinding of these modification losses (note 14).

4 FINANCE COST, NET

	<i>For the three-month period ended 30 June 2022</i>	<i>For the three-month period ended 30 June 2021</i>	<i>For the six-month period ended 30 June 2022</i>	<i>For the six-month period ended 30 June 2021</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Finance charges	3,014,401	1,092,440	6,399,248	1,643,497
Unwinding of modification gains (note 4.1)	45,436	1,606,853	100,107	168,594
	3,059,837	2,699,293	6,499,355	1,812,091

4.1 This represents modification gain arising due to payment deferral granted to the Company by lenders pursuant to SAMA Support Program net off subsequent unwinding of such modification gains (note 14).

5 ZAKAT

The movement in the zakat provision for the period is as follows:

	<i>For the three-month period ended 30 June 2022</i>	<i>For the three-month period ended 30 June 2021</i>	<i>For the six-month period ended 30 June 2022</i>	<i>For the six-month period ended 30 June 2021</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
At the beginning of the period	3,102,512	500,752	2,322,923	351,941
Charge for the period	779,589	148,812	1,559,178	297,623
Payment during the period	(2,472,023)	(324,754)	(2,472,023)	(324,754)
At the end of the period	1,410,078	324,810	1,410,078	324,810

Status of assessments

The Company has filled Zakat declarations up to 31 December 2021. Zakat, Tax and Customs Authority ("ZATCA") have finalized assessments till 31 December 2017. The assessments for the year ended 31 December 2018 to 31 December 2021 have not yet been raised by the ZATCA.

AJIL FINANCIAL SERVICES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)

At 30 June 2022

6 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	<i>30 June 2022 Unaudited SR</i>	<i>31 December 2021 Audited SR</i>
Advance payments (note 6.1)	7,276,263	34,684,115
Trade and other receivables (note 6.2)	21,542,275	26,030,495
Prepaid expenses	2,956,176	1,545,822
Advances to employees	2,598,428	2,701,022
	<u>34,373,142</u>	<u>64,961,454</u>

6.1 Advance payments primarily represent advance payment to suppliers amounting to SR 2.7 million (31 December 2021: SR 30.1 million) and payment of SR 4.5 million (31 December 2021: SR 4.5 million) made to a musharika partner under musharika arrangements. Advance payments also include SR nil (31 December 2021: SR 2.3 million) receivable from a related party (note 10).

6.2 Trade and other receivables include insurance paid on behalf of customers amounting to SR 21.9 million (31 December 2021: SR 19 million), against which an allowance for expected credit losses of SR 12.6 million (31 December 2021: SR 12.6 million) has been maintained.

7 NET INVESTMENT IN FINANCE LEASES

	<i>30 June 2022 Unaudited SR</i>	<i>31 December 2021 Audited SR</i>
Gross investment in finance leases (note 7.1)	1,053,687,904	1,243,948,133
Less: unearned finance income and modification losses	(66,901,551)	(81,127,261)
Net investment in finance leases (before allowance for expected credit losses)	986,786,353	1,162,820,872
Less: allowance for expected credit losses (note 7.2)	(195,371,305)	(255,653,982)
Net investment in finance leases	<u>791,415,048</u>	<u>907,166,890</u>

7.1 The gross investment in finance leases include SR 0.3 million (31 December 2021: SR 0.5 million) receivable from related parties (note 10).

7.2 The movement in allowance for expected credit losses on finance leases is given below:

	<i>For the three-month period ended 30 June 2022 Unaudited SR</i>	<i>For the three-month period ended 30 June 2021 Unaudited SR</i>	<i>For the six-month period ended 30 June 2022 Unaudited SR</i>	<i>For the six-month period ended 30 June 2021 Unaudited SR</i>
At the beginning of the period	190,055,720	152,333,047	255,653,982	118,493,303
Charge for the period	17,942,539	26,517,475	25,035,361	60,357,219
Amounts written off	(12,626,954)	(21,105,499)	(85,318,038)	(21,105,499)
At the end of the period	<u>195,371,305</u>	<u>157,745,023</u>	<u>195,371,305</u>	<u>157,745,023</u>

7.3 As per management's established policy, finance lease and murabaha receivables are written off upon reaching a certain days past due (DPD) as specified in the policy. However, such receivables when written off, would still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

AJIL FINANCIAL SERVICES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)

At 30 June 2022

8 MURABAHA FINANCING RECEIVABLES

	<i>30 June 2022 Unaudited SR</i>	<i>31 December 2021 Audited SR</i>
Gross murabaha financing receivables	816,822,946	761,239,455
Less: unearned finance income	(70,296,683)	(75,201,650)
Murabaha financing receivables (before allowance for expected credit losses)	746,526,263	686,037,805
Less: credit loss on murabaha financing receivables (note 8.1)	(67,197,383)	(68,630,176)
Murabaha financing receivables	679,328,880	617,407,629

8.1 The movement in credit loss on murabaha financing receivables is given below:

	<i>For the three-month period ended 30 June 2022 Unaudited SR</i>	<i>For the three-month period ended 30 June 2021 Unaudited SR</i>	<i>For the six-month period ended 30 June 2022 Unaudited SR</i>	<i>For the six-month period ended 30 June 2021 Unaudited SR</i>
At the beginning of the period	74,440,896	22,281,485	68,630,176	15,455,338
(Reversal) / charge for the period	(7,243,513)	9,651,416	(1,432,793)	16,477,563
At the end of the period	67,197,383	31,932,901	67,197,383	31,932,901

9 SHARE CAPITAL

The share capital of the Company is divided into 50,000,000 shares (31 December 2021: 50,000,000) of SR 10 each. As at 30 June 2022 and 31 December 2021, the share capital of the Company was owned as follows:

	<i>No. of shares of SR 10 each</i>	<i>30 June 2022 Unaudited SR</i>	<i>31 December 2021 Audited SR</i>	<i>Percentage of ownership %</i>
Riyad Bank	24,230,769	242,307,690	242,307,690	48.46
Zahid Group Holding Company Limited	17,307,692	173,076,920	173,076,920	34.62
Al – Yemni Investments	3,461,539	34,615,390	34,615,390	6.92
Hussein Alireza Sons Company Limited	2,500,000	25,000,000	25,000,000	5
Khaled Ahmed Al Juffali Company	2,500,000	25,000,000	25,000,000	5
	50,000,000	500,000,000	500,000,000	100

The Company is ultimately owned by Saudi shareholders.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)

At 30 June 2022

10 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties (other related parties). Related party transactions are undertaken at mutually agreed terms and conditions and approved by the Company's management.

10.1 Following are the details of major related party transactions entered during the period:

<i>Related party</i>	<i>Nature of transaction</i>	<i>For the three-month period ended 30 June 2022 Unaudited SR</i>	<i>For the three-month period ended 30 June 2021 Unaudited SR</i>	<i>For the six-month period ended 30 June 2022 Unaudited SR</i>	<i>For the six-month period ended 30 June 2021 Unaudited SR</i>
Riyad Bank	Financial charges on term loan	714,202	96,872	1,442,068	261,319
	Repayment of term loans, net	333,333	14,000,000	44,333,333	71,000,000
Zahid Tractor and Heavy Machinery Company Limited	Purchase of leasing equipment	54,418,152	73,190,915	95,091,122	138,983,795
	Services received	27,576	210,453	470,770	458,295
Wared Transport Company	Services received	396	1,583	1,582	2,374
Saudi Company of Site Technology Limited	Purchase of leasing equipment	36,806	1,759,500	47,846	-
The Machinery Group LLC (TAMGO)	Purchase of leasing equipment	3,119,950	-	5,531,500	7,469,400
Juffali Industrial Product Company	Purchase of leasing equipment	4,010,878	20,803,500	7,144,628	22,563,000
Haji Hussein Ali Reza Company Limited	Purchase of leasing equipment	-	2,208,000	15,400,960	2,208,000
Zahid Travel Group	Services received	-	7,722	33,641	20,189
AL TAAQA Alternative Solutions Company Limited	Purchase of leasing equipment	-	-	465,750	-
EJAR Machinery Rental Alternative Company Limited	Purchase of leasing equipment	2,132,100	-	2,546,100	-
Juffali Printing Systems Company	Purchase of leasing equipment	51,558	-	86,331	-
Nihad Abdullah Arab & Sons Limited Company	Services received	55,200	50,370	110,400	102,983
Al-Yemni Motors Company Limited	Purchase of leasing equipment	1,443,250	-	2,225,250	-
Arabian Company for Marketing Services LLC	Services received	-	5,175	-	15,525
Board of Directors	Remuneration to Board of Directors	300,000	-	600,000	600,000
Members of Audit Committee	Remuneration of member of Audit Committee	52,500	-	105,000	187,500

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)

At 30 June 2022

10 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

10.2 Due to related parties comprise the following:

	<i>30 June 2022 Unaudited SR</i>	<i>31 December 2021 Audited SR</i>
Zahid Tractor and Heavy Machinery Company Limited	11,255,891	5,975,810
Board of Directors	2,100,000	1,500,000
The Machinery Group LLC (TAMGO)	2,098,750	228,206
EJAR Machinery Rental Alternative Company Limited	749,225	-
Members of Audit Committee	198,750	93,750
Juffali Printing Systems Company	-	17,507
Saudi Company of Site Technology Limited	-	10,764
OCS Arabia Company LLC	-	1,328
	<u>16,402,616</u>	<u>7,827,365</u>

10.3 Cash and cash equivalents include an amount of SR 64.0 million (31 December 2021: SR 29.6 million) that is kept with a related party.

10.4 Lease liabilities include an amount of SR 0.24 million (31 December 2021: SR 0.85 million) with respect to lease agreement entered with a related party.

Key management Remuneration

Remuneration of the key management personnel of the Company is as follows:

	<i>30 June 2022 Unaudited SR</i>	<i>30 June 2021 Unaudited SR</i>
Short term employee benefits	3,388,302	2,885,151
Post-employment benefit	360,945	308,190
Non-monetary benefits	102,964	80,086
	<u>3,852,211</u>	<u>3,273,427</u>

11 TERM LOANS

	<i>30 June 2022 Unaudited SR</i>	<i>31 December 2021 Audited SR</i>
Short term loans (note 11.1)	25,000,000	235,000,000
Long term loans (note 11.2)	597,676,002	506,582,048
SAMA profit free deposit (note 14)	182,281,042	138,154,319
	<u>804,957,044</u>	<u>879,736,367</u>

11.1 These represent short term loans drawn from various local banks against credit lines of SR 1,457 million (31 December 2021: SR 2,182 million). These facilities carry fixed profit rates and are secured against promissory notes issued by the Company.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)

At 30 June 2022

11 TERM LOANS (continued)

- 11.2 These represents long term loans from various local banks amounting to SR 182 million (31 December 2021: SR 226 million), loan from Social Development Bank ("SDB") under "Monhsa'at Program" amounting to SR 22 million (31 December 2021: SR 33 million) and SR 393 million from SAMA under "Loan Guarantee Program" (31 December 2021: SR 247 million). 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 May 2025.
- 11.3 Term loans includes SR 106 million (31 December 2021: SR 150.3 million) payable to related parties (note 10).

12 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction 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 by the Company. The Company's financial assets consist of cash and cash equivalents, net investment in finance leases, murabaha financing receivables and other receivables. Its financial liabilities consist of trade payables, term loans, due to related parties, lease liabilities and other liabilities.

13 FINANCIAL RISK MANAGEMENT

Credit risk management

The Company has strengthened its credit risk management policies to address the fast changing and evolving risks posed by the current circumstances. These include review of concentrations at granular economic sector, region, counterparty level including consideration of impacts of government and SAMA support, collateral protection, timely review and rating action and appropriately restructuring loans where required. All such measures are discussed and approved by the Risk Committee.

Liquidity risk management

The Company is aware of the need to keep a close focus on liquidity management during this period and has further enhanced its daily monitoring of liquidity. The Company acknowledges the timely action of SAMA and other government bodies in providing support and assurance to the financial markets.

Operational risk management

The Company responded quickly to the crisis and established an internal group to focus on the impacts of the pandemic and the effects on the Company. Furthermore, it put in place contingency plans allowing a significant proportion of employees to work from home. On need basis, employees were also permitted to visit the Company's offices on a restricted basis whilst following government guidelines at all times. The Company's investment in its IT and digital infrastructure has allowed clients to use the Company's facilities at minimal inconvenience during this period of Company closure whilst employees were able to work from home with minimal impact on effectiveness. Existing processes and controls have operated as normal throughout this period.

Capital management

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure. The Company manages the capital structure and makes adjustments in the light of 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 dividend paid to shareholders, return capital to shareholders or issue new shares. No changes were made in objectives, policies or processes for managing capital during the six-month period ended 30 June 2022.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)

At 30 June 2022

13 FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

The Company monitors capital on the basis of the regulatory requirements of Regulations for Companies and SAMA minimum capital requirements for financing companies.

	<i>30 June 2022 Unaudited</i>	<i>31 December 2021 Audited</i>
Capital adequacy ratio	<u>2.21</u>	<u>2.32</u>

(Net investment in finance leases and murabaha financing receivables divided by total shareholders' equity).

14 IMPACT OF COVID-19 ON THE FINANCIAL POSITION OF THE COMPANY

During 2020 and 2021, the Coronavirus ("COVID-19") pandemic disrupted global markets as many geographies experienced issues due to identification of multiple new variants of this infection. Significant improvements have been witnessed around the world after vaccination of mass population by various countries resulting in the reduction of active cases and relaxation of COVID restrictions.

The Company continues to evaluate the impact of the Coronavirus ("COVID-19") inputs and assumptions used for the determination of expected credit losses ("ECL"). The Company's ECL model continues to be sensitive to macroeconomic variables and scenario weightings. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental, and the Company will continue to reassess its position and the related impact on a regular basis.

SAMA programs and initiatives launched

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro, Small and Medium Enterprises ("MSMEs") as per Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

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

As part of the deferred payments program launched by SAMA in March 2020 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 as at 30 June 2022 out of which SR 31.6 million has been unwound as of 30 June 2022 including unwinding of SR 4.2 million during the period ended 30 June 2022 (30 June 2021: SR 4.4 million).

Furthermore, in accordance with the PSFSP, the Company was also eligible for the deferral of its term loan instalment payment to the banks (note 11). Accordingly, the Company has recognised total modification gains of SR 24.2 million as of 30 June 2022 (31 December 2021: SR 24.2 million) out of which modification gains amounting to SR 24.1 million were unwound until 30 June 2022 including SR 0.1 million unwound during the period ended 30 June 2022 (30 June 2021: SR 0.17 million).

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)

At 30 June 2022

14 IMPACT OF COVID-19 ON THE FINANCIAL POSITION OF THE COMPANY (continued)

Under Loan Guarantee Program by SAMA, the Company has received total long-term loans amounting to SR 444 million until 30 June 2022 (including SR 181 million received during the period ended 30 June 2022) out of which SR 51 million has been repaid (note 11). This amount has been utilized by the Company to finance MSME loans qualifying under criteria approved by Kafalah.

Furthermore, during the period ended 30 June 2022, 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 44 million, carrying a maturity of 18 months (included under Term loans facilities) in the interim condensed 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 2 million) based on communication from SAMA and the nature and purpose of the facility. Accordingly, it has been included under Revenue, net (note 3).

15 COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform to current period presentation, which are not material in nature.

16 BOARD OF DIRECTORS' APPROVAL

These interim condensed financial statements were approved by the Board of Directors on 1 August 2022G (corresponding to 3 Muharram 1444H).