

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

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

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023

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

INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended 31 March 2023

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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 31 March 2023, and the related interim condensed statement of comprehensive income for the three-month period then ended, and the interim condensed statements of changes in shareholders' equity and cash flows for the three-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 interim condensed financial statements for the three-month period ended 31 March 2022 were reviewed by another auditor who expressed their unmodified conclusion thereon on those interim condensed financial statements on 25 April 2022 (corresponding to 24 Ramadan 1443H).

for Ernst & Young Professional Services



Ahmed Ibrahim Reda
Certified Public Accountant
License No. (356)



Jeddah: 14 Shawwal 1444H
4 May 2023G

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

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three-month period ended 31 March 2023

		<i>For the three-month period ended 31 March 2023</i>	<i>For the three-month period ended 31 March 2022</i>
	<i>Note</i>	<i>Unaudited SR</i>	<i>Unaudited SR</i>
Revenue, net	3	37,953,207	32,177,867
Finance cost, net	4	(2,019,709)	(3,439,518)
		35,933,498	28,738,349
General and administrative expenses		(22,905,253)	(14,437,441)
Depreciation of equipment, furniture and vehicles		(265,751)	(301,866)
Depreciation of right of use assets		(737,575)	(754,745)
Amortization of intangible assets		(158,175)	(231,127)
PROFIT BEFORE EXPECTED CREDIT LOSSES		11,866,744	13,013,170
Expected credit losses on financial assets	7 & 8	(6,136,097)	(12,903,542)
Recovery of debts previously written-off		2,576,538	3,692,584
PROFIT FOR THE PERIOD BEFORE ZAKAT		8,307,185	3,802,212
Zakat	5	(1,688,680)	(779,589)
NET PROFIT FOR THE PERIOD		6,618,505	3,022,623
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		6,618,505	3,022,623

The attached notes 1 to 15 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 31 March 2023

		31 March 2023 Unaudited SR	31 December 2022 Audited SR
ASSETS	Note		
Cash and cash equivalents		281,613,018	182,349,318
Advances, prepayments and other receivables	6	33,255,665	32,097,110
Net investment in finance leases	7	761,469,705	734,924,317
Murabaha financing receivables, net	8	918,742,187	817,285,884
Equipment, furniture and vehicles		3,908,709	2,576,899
Right of use assets		3,019,759	3,067,838
Intangible assets		2,523,130	2,348,424
Equity investment at fair value through other comprehensive income		892,850	892,850
TOTAL ASSETS		2,005,425,023	1,775,542,640
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	9	500,000,000	500,000,000
Statutory reserve		101,897,113	101,897,113
Retained earnings		78,808,260	72,189,755
Actuarial losses on employees' defined benefit liabilities		(3,893,335)	(3,893,335)
TOTAL SHAREHOLDERS' EQUITY		676,812,038	670,193,533
LIABILITIES			
Accounts payables, accrued and other liabilities		65,641,822	103,624,587
Due to related parties	10	34,619,789	19,927,177
Lease liabilities		1,738,929	2,562,781
Term loans	11	1,204,585,366	959,679,788
Provision for zakat	5	5,668,493	3,979,813
Employees' defined benefit liabilities		16,358,586	15,574,961
TOTAL LIABILITIES		1,328,612,985	1,105,349,107
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		2,005,425,023	1,775,542,640

The attached notes 1 to 15 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 three-month period ended 31 March 2023

	<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 2023	500,000,000	101,897,113	72,189,755	(3,893,335)	670,193,533
Net profit for the period	-	-	6,618,505	-	6,618,505
Balance as at 31 March 2023 (Unaudited)	500,000,000	101,897,113	78,808,260	(3,893,335)	676,812,038
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	-	-	3,022,623	-	3,022,623
Balance as at 31 March 2022 (Unaudited)	500,000,000	100,572,044	63,286,753	(3,025,609)	660,833,188

The attached notes 1 to 15 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 three-month period ended 31 March 2023

		<i>For the three-month period ended 31 March 2023 Unaudited SR</i>	<i>For the three-month period ended 31 March 2022 Unaudited SR</i>
	<i>Note</i>		
OPERATING ACTIVITIES			
Profit for the period before zakat		8,307,185	3,802,212
<i>Adjustments for:</i>			
Depreciation of equipment, furniture and vehicles		265,751	301,866
Amortization of right of use assets		737,575	754,745
Amortization of intangibles		158,175	231,127
Modification gains on investment in finance lease, net	3	(683,026)	(3,225,110)
Grant income on SAMA profit free deposit	3	-	(835,830)
Finance costs	4	2,019,709	3,439,518
Expected credit losses on financial assets	7 & 8	6,136,097	12,903,542
Provision for employees' defined benefit liabilities		948,963	804,063
Gain on modification of lease contracts		(865,263)	-
		<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities		17,025,166	18,176,133
<i>Changes in operating assets and liabilities</i>			
Net investment in finance leases		(30,770,822)	29,655,174
Murabaha financing receivables, net		(102,683,940)	(32,291,509)
Advances, prepayments and other receivables		(1,158,555)	23,508,141
Accounts payables, accrued and other liabilities		(37,982,765)	(9,053,880)
Due to related parties		14,692,612	4,816,039
		<hr/>	<hr/>
Cash (used in) / from operations		(140,878,304)	34,810,098
Finance costs paid		(967,224)	(2,524,870)
Employee's terminal benefits paid		(165,338)	(661,810)
		<hr/>	<hr/>
Net cash (used in) / from operating activities		(142,010,866)	31,623,418
		<hr/>	<hr/>
INVESTING ACTIVITIES			
Purchase of equipment, furniture and vehicles		(1,597,561)	(350,005)
Purchase of intangibles		(332,881)	(336,944)
		<hr/>	<hr/>
Net cash used in operating activities		(1,930,442)	(686,949)
		<hr/>	<hr/>
FINANCING ACTIVITIES			
Proceeds from term loans		463,000,000	223,723,557
Repayments of term loans		(219,146,907)	(230,246,566)
Repayment of principal portion of lease liabilities		(648,085)	(733,397)
		<hr/>	<hr/>
Net cash from / (used in) financing activities		243,205,008	(7,256,406)
		<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS		99,263,700	23,680,063
Cash and cash equivalents at the beginning of the period		182,349,318	47,757,136
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		281,613,018	71,437,199
		<hr/> <hr/>	<hr/> <hr/>

The attached notes 1 to 15 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 31 March 2023

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 September 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, productive assets financing, financing the activity of small and medium enterprises and consumer finance.

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 three-month period ended 31 March 2023 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2023.

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 investment 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 31 March 2023

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 31 March 2023 have been prepared in accordance with International Accounting Standard 34 “*Interim Financial Reporting*” (IAS 34) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

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 2022.

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 2022.

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 2022, 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 2023 and voluntary change in accounting policy for estimation of expected credit losses against net investment in finance leases as disclosed below.

2.5.1 Impact of changes in accounting policies due to adoption of new standards

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2023, but do not have an impact on the interim condensed financial statements of the Company.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The amendments had no impact on the interim condensed financial statements of the Company.

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no impact on the interim condensed financial statements of the Company.

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

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

At 31 March 2023

2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

2.5 Significant accounting policies (continued)

2.5.1 Impact of changes in accounting policies due to adoption of new standards (continued)

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments had no impact on the interim condensed financial statements of the Company.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the interim condensed financial statements of the Company.

2.5.2 Impact of change in accounting policy for measurement of expected credit loss on net investment in finance leases

The Company has changed its accounting policy to measure the expected credit loss on net investment in finance leases from the Simplified approach to the General approach, both of which are permissible under IFRS 9 - "Financial Instruments". Full accounting policy description of General approach was disclosed in the financial statements of the Company for the year ended 31 December 2022.

Third interim condensed statement of financial position as at the beginning of the preceding period (i.e. 1 January 2022) is not presented as per the requirements of "IAS 1 - Presentation of Financial Statements" since the change in accounting policy does not have a material impact on the interim condensed statement of financial position as at 1 January 2022 (note 7).

Impairment of financial instruments - Measurement of ECL

Policy applicable as of 1 January 2023 (applied retrospectively)

The Company recognizes loss allowances for Expected Credit Loss ("ECL") on the following financial instruments that are not measured at FVTPL:

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

No impairment loss is recognized on equity investments.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit losses), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses ("12-month ECL").

The 12-month ECL is the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both lifetime ECL and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company assesses whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

When estimating the ECL, the Company considers five scenarios (a base case, a moderate downside, severe downside and a moderate upside and severe upside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the net investment in finance leases will cure and the value of collateral or the amount that might be received for selling the asset. Considering the Company does not have balance of a revolving nature, the maximum period for which the credit losses are determined is the contractual life of a financial instrument.

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

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

At 31 March 2023

2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

2.5 Significant accounting policies (continued)

2.5.2 Impact of change in accounting policy for measurement of expected credit loss on net investment in finance leases (continued)

Impairment of financial instruments - Measurement of ECL (continued)

The Company groups its investment in finance leases into Stage 1, Stage 2, Stage 3 and Purchased or Originated Credit Impaired ("POCI"), as described below:

- Stage 1: When net investment in finance leases are first recognised, the Company recognises an allowance based on 12-month ECL. Stage 1 net investment in finance leases also include facilities where the credit risk has improved, and the balance has been reclassified from Stage 2.
- Stage 2: When a net investment in finance leases has shown a significant increase in credit risk since origination, the Company records an allowance for the lifetime ECL. Stage 2 balances also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Net investment in finance leases considered credit-impaired. The Company records an allowance for the lifetime ECL.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The Company calculates ECL based on a probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive. Key components to calculate the ECL are outlined below:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognised and is still in the portfolio.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD.

2.6 Standards issued not yet effective

As at the date of authorization of these interim condensed 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:

Amendments to Standards	Description	Effective for annual periods beginning on or after
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 1	Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants	1 January 2024
Amendments to 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 31 March 2023

3 REVENUE, NET

	<i>For the three-month period ended 31 March 2023 Unaudited SR</i>	<i>For the three-month period ended 31 March 2022 Unaudited SR</i>
Finance income from finance leases (note 3.1)	21,025,813	15,333,784
Finance income from murabaha financing	16,244,368	12,783,143
Unwinding of modification losses on investment in finance leases (note 3.2)	683,026	3,225,110
Grant income on SAMA profit free deposits (note 14.3)	-	835,830
	<u>37,953,207</u>	<u>32,177,867</u>

3.1 Finance lease income is net of the insurance expense of SR 1.7 million (2022: SR 3.3 million).

3.2 This represents unwinding of modification losses arising due to payment deferral granted to lease customers pursuant to SAMA support program (note 14.1).

4 FINANCE COST, NET

	<i>For the three-month period ended 31 March 2023 Unaudited SR</i>	<i>For the three-month period ended 31 March 2022 Unaudited SR</i>
Finance charges	865,495	2,462,141
Unwinding of deferred gain on SAMA profit free deposit (not 14.3)	1,154,214	922,706
Unwinding of modification gains on term loans from banks (note 14.2)	-	54,671
	<u>2,019,709</u>	<u>3,439,518</u>

5 ZAKAT

The movement in the provision for zakat is as follows:

	<i>For the three-month period ended 31 March 2023 Unaudited SR</i>	<i>For the three-month period ended 31 March 2022 Unaudited SR</i>
At the beginning of the period	3,979,813	2,322,923
Charge for the period	1,688,680	779,589
At the end of the period	<u>5,668,493</u>	<u>3,102,512</u>

Status of assessments

The Company has filed Zakat declarations up to 31 December 2022. 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 2022 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 31 March 2023

6 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	<i>31 March 2023 Unaudited SR</i>	<i>31 December 2022 Audited SR</i>
Insurance claims receivable, net (note 'a')	6,672,387	8,397,486
Advance payments	7,643,715	1,508,286
Prepaid expenses	2,905,876	6,800,722
Advances to employees	2,947,032	2,554,876
Other receivables	13,086,655	12,835,740
	<u>33,255,665</u>	<u>32,097,110</u>

- a. It represents insurance paid on behalf of customers amounting to SR 19 million (2022: SR 21 million), against which an allowance for expected credit losses of SR 12.5 million (2022: SR 12.6 million) has been maintained. During the period ended 31 March 2023, an amount of SR 76,354 (31 March 2022: SR nil) was written off.

7 NET INVESTMENT IN FINANCE LEASES

	<i>31 March 2023 Unaudited SR</i>	<i>31 December 2022 Audited SR</i>
Gross investment in finance leases (note 'a')	956,707,195	923,515,670
Less: unearned finance income	(67,205,249)	(64,711,193)
Less: modification losses (note 'b')	(948,070)	(1,631,096)
Net investment in finance leases before allowance for expected credit losses	888,553,876	857,173,381
Less: allowance for expected credit losses (note 'c')	(127,084,171)	(122,249,064)
Net investment in finance leases	<u>761,469,705</u>	<u>734,924,317</u>

- a. The gross investment in finance leases include SR nil (31 December 2022: SR 0.1 million) receivable from related parties (note 10).
- b. This represents modification losses arising due to payment deferral granted by the Company to the eligible customers pursuant to SAMA Support Program (note 14.1) and subsequent (unwinding) of such modification losses.
- c. The movement in allowance for expected credit losses on investment in finance leases is given below:

	<i>For the three-month period ended 31 March 2023 Unaudited SR</i>	<i>For the three-month period ended 31 March 2022 Unaudited SR</i>
At the beginning of the period	122,249,064	255,653,982
Charge for the period	4,908,460	7,092,822
Amounts written off	(73,353)	(72,691,084)
At the end of the period	<u>127,084,171</u>	<u>190,055,720</u>

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

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

At 31 March 2023

8 MURABAHA FINANCING RECEIVABLES, NET

	<i>31 March 2023 Unaudited SR</i>	<i>31 December 2022 Audited SR</i>
Gross murabaha financing receivables	1,066,759,263	958,104,462
Less: unearned finance income	(95,928,554)	(89,957,693)
Murabaha financing receivables before allowance for expected credit losses	970,830,709	868,146,769
Less: credit loss on murabaha financing receivables (note 'a')	(52,088,522)	(50,860,885)
Murabaha financing receivables, net	918,742,187	817,285,884

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

	<i>For the three-month period ended 31 March 2023 Unaudited SR</i>	<i>For the three-month period ended 31 March 2022 Unaudited SR</i>
At the beginning of the period	50,860,885	68,630,176
Charge for the period	1,227,637	5,810,720
At the end of the period	52,088,522	74,440,896

Murabaha financing are Islamic mode of financing provided to customers for the purposes of working capital funding requirements. Murabaha financing earn commission at commercial rates.

9 SHARE CAPITAL

The share capital of the Company is divided into 50,000,000 shares (31 December 2022: 50,000,000) of SR 10 each. As at 31 March 2023 and 31 December 2022, the share capital of the Company was owned as follows:

	<i>No. of shares of SR 10 each</i>	<i>31 March 2023 Unaudited SR</i>	<i>31 December 2022 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)

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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 31 March 2023 Unaudited SR</i>	<i>For the three-month period ended 31 March 2022 Unaudited SR</i>
Riyad Bank	Financial charges on term loan	360,384	727,867
	Repayment of term loans, net	9,666,667	44,666,667
	Repayment against Musharaka arrangements	28,459,886	18,740,885
Zahid Tractor and Heavy Machinery Company Limited	Purchase of leasing equipment	103,579,506	40,672,970
	Services received	293,710	498,346
Wared Transport Company	Services received	3,560	1,187
Saudi Company of Site Technology Limited	GPS installation services	-	11,040
The Machinery Group LLC (TAMGO)	Purchase of leasing equipment	5,817,195	2,411,550
Juffali Industrial Product Company	Purchase of leasing equipment	26,477,300	3,133,750
Haji Hussein Ali Reza Company Limited	Purchase of leasing equipment	3,449,085	15,400,960
Zahid Travel Group	Services received	45,278	33,641
AL TAAQA Alternative Solutions Company Limited	Purchase of leasing equipment	831,910	465,750
EJAR Machinery Rental Alternative Company Limited	Purchase of leasing equipment	351,555	414,000
Juffali Printing Systems Company	Purchase of leasing equipment	-	34,773
Nihad Abdullah Arab & Sons Limited Company	Services received	55,200	55,200
Al-Yemni Motors Company Limited	Purchase of leasing equipment	2,530,000	782,000
Board of Directors	Remuneration to Board of Directors	300,000	300,000
Members of Audit Committee	Remuneration of member of Audit Committee	52,500	52,500

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10 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

10.2 Due to related parties comprise the following:

	<i>31 March 2023 Unaudited SR</i>	<i>31 December 2022 Audited SR</i>
Zahid Tractor and Heavy Machinery Company Limited	32,418,779	15,364,552
The Machinery Group LLC (TAMGO)	1,016,600	4,476,375
AL TAAQA Alternative Solutions Company Limited	831,910	-
Board of Directors	300,000	-
Members of Audit Committee	52,500	-
Al-Yemni Motors Company Limited	-	86,250
	34,619,789	19,927,177

10.3 Cash and cash equivalents include an amount of SR 26.65 million (31 December 2022: SR 43.3 million) that is kept with a related party.

10.4 Lease liabilities include an amount of SR nil (31 December 2022: SR 0.23 million) with respect to lease agreement entered with a related party.

10.5 Term loans includes SR 52.26 million (31 December 2022: SR 61.98 million) payable to a related party.

10.6 Accounts and other payables includes SR 17.3 million (31 December 2022: SR 21.6 million) in respect of musharaka arrangements payable to a related party.

Key management Remuneration

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

	<i>31 March 2023 Unaudited SR</i>	<i>31 March 2022 Unaudited SR</i>
Short term employee benefits	2,004,584	1,686,151
Post-employment benefit	210,919	179,573
Non-monetary benefits	184,085	-
	2,399,588	1,865,724

11 TERM LOANS

	<i>31 March 2023 Unaudited SR</i>	<i>31 December 2022 Audited SR</i>
Long term loans (note 11.1 & 11.2)	1,161,164,014	775,067,275
SAMA profit free deposit (note 14.3)	43,421,352	184,612,513
	1,204,585,366	959,679,788

11.1 It includes long term loans from various local banks amounting to SR 116.3 million (31 December 2022: SR 138.5 million), carrying applicable market rates and repayable in fixed quarterly instalments with last instalment due in July 2024.

11.2 It also includes long term loans from SAMA under "Loan Guarantee Program" amounting to SR 1,039.4 million (31 December 2022: SR 625.5 million) and from Social Development Bank ("SDB") under "Monhsa'at Program" amounting to SR 5.5 million (31 December 2022: SR 11 million). The purpose of these interest free loans is to finance small and medium enterprises subject to certain terms and conditions stipulated under the respective programs (note 14.4). These long-term loans are repayable in fixed monthly instalments with last instalment due in February 2026.

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At 31 March 2023

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 lease, murabaha financing receivables and other receivables. Its financial liabilities consist of accounts payables, term loans, due to related parties, lease liabilities and other liabilities.

The fair values of the financial instruments are not materially different from their carrying amounts except for the net investment in finance leases, murabaha financing receivables since all of the financial instruments carry maturity of less than one year.

13 FINANCIAL RISK MANAGEMENT

Credit Risk

It is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. 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. The carrying amount of financial assets recorded in the interim condensed 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.

An analysis of gross exposure of investment in finance leases before ECL allowance and the corresponding ECL allowance as at 31 March 2023 and 31 December 2022 is as follows:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
31 March 2023				
Gross investment in finance leases	599,599,444	84,509,423	272,598,328	956,707,195
Allowance for expected credit losses	25,621,139	10,361,390	91,101,642	127,084,171
31 December 2022				
Gross investment in finance leases	563,765,562	57,067,402	302,682,706	923,515,670
Allowance for expected credit losses	19,920,391	5,096,117	97,232,556	122,249,064

An analysis of gross exposure of murabaha financing receivables before ECL allowance and the corresponding ECL allowance as at 31 March 2023 and 31 December 2022 is as follows:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
31 March 2023				
Gross murabaha financing receivables	930,174,260	61,193,515	75,391,488	1,066,759,263
Allowance for expected credit losses	24,162,504	4,299,165	23,626,853	52,088,522
31 December 2022				
Gross murabaha financing receivables	804,971,235	74,125,530	79,007,697	958,104,462
Allowance for expected credit losses	20,724,993	5,967,531	24,168,361	50,860,885

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

At 31 March 2023

13 FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, profit rate risk and other price risk, such as equity price risk and commodity risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, the management manages assets with liquidity in mind, maintaining an appropriate balance of cash and cash equivalents and credit lines and monitors future cash flows and liquidity on regular basis.

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 three-month period ended 31 March 2023.

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

	31 March 2023 Unaudited	31 December 2022 Audited
Capital adequacy ratio	2.48	2.32

(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

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.

- 14.1 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 31 March 2023 out of which SR 34.8 million has been unwound as of 31 March 2023 including unwinding of SR 0.7 million during the period ended 31 March 2023 (31 March 2022: SR 3.2 million) (note 3.2).

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

At 31 March 2023

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

- 14.2 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 31 March 2023 (31 December 2022: SR 24.2 million) out of which modification gains amounting to SR 24.2 million were unwound until 31 March 2023 including SR nil unwound during the period ended 31 March 2023 (31 March 2022: SR 0.1 million) (note 4).
- 14.3 Furthermore, in order to compensate for the costs that the Company has incurred under the SAMA's deferred payments program, in prior years the Company received profit free deposits from SAMA amounting to SR 186.3 million, carrying a maturity of 18 months (classified under term loans facilities) in the interim condensed statement of financial position out of which SR 142.3 million has been repaid during the period ended 31 March 2023 (31 March 2022: SR nil) (note 11). Based on communication from SAMA and the nature and purpose of the facility, the profit free element on these deposits amounting to SR 7 million qualified as government grant (representing the difference between the fair value and the face value of the profit free deposit upon initial recognition) accordingly, it was included under Revenue, net in respective years (note 3). As at 31 March 2023, modification gains related to government grant amounting to SR 6.4 million has been unwound including SR 1.2 million unwound during the period ended 31 March 2023 (31 March 2022: SR 0.9 million) and accordingly, it has been included under Finance costs, net (note 4).
- 14.4 Under Loan Guarantee Program by SAMA, the Company has received total long-term loans amounting to SR 1,211 million out of which SR 171.6 million has been repaid until 31 March 2023 (31 December 2022: SR 748 million received out of which SR 122.5 million has been repaid) (note 11). This amount has been utilized by the Company to finance MSME loans qualifying under criteria approved by SAMA. The net impact of the interest free deposit from SAMA and interest charged on financing to MSME customers with a low interest rate is not significant to the interim condensed financial statements (note 11.2).

15 BOARD OF DIRECTORS' APPROVAL

These interim condensed financial statements were approved by the Board of Directors on 1 May 2023G (corresponding to 11 Shawwal 1444H).