

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

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2022**

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

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**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

For the year ended 31 December 2022

<b>INDEX</b>	<b>PAGE</b>
Independent auditor's report	2-3
Statement of profit or loss	4
Statement of other comprehensive income	5
Statement of financial position	6
Statement of changes in shareholders' equity	7
Statement of cash flows	8
Notes to the financial statements	9 – 42

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF AJIL FINANCIAL SERVICES COMPANY  
(A SAUDI CLOSED JOINT STOCK COMPANY)**

**Opinion**

We have audited the financial statements of AJIL Financial Services Company (A Saudi Closed Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2022, and the statements of profit or loss and other comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants.

**Basis for Opinion**

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

**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).

**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 the IFRSs that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants, the provisions of Companies' Law and Company's By-laws, and for such internal control as management determine 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 the management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF AJIL FINANCIAL SERVICES COMPANY  
(A SAUDI CLOSED JOINT STOCK COMPANY) (continued)**

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

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:


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

We communicate with 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.

**Report on Other Legal and Regulatory Requirements**

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

For Ernst & Young Professional Services

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

Jeddah: 9 Sha'ban 1444H  
1 March 2023G



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

**STATEMENT OF PROFIT OR LOSS**

For the year ended 31 December 2022

	<i>Note</i>	<b>2022 SR</b>	<b>2021 SR</b>
Revenue, net	5	<b>130,179,373</b>	111,621,448
Finance cost, net	6	<b>(11,424,916)</b>	(11,492,033)
		<b>118,754,457</b>	100,129,415
General and administrative expenses	7	<b>(62,092,120)</b>	(56,342,079)
Depreciation of equipment, furniture, and vehicles	13	<b>(1,154,307)</b>	(1,224,078)
Depreciation of right of use assets	14	<b>(3,257,577)</b>	(3,297,669)
Amortization of intangible assets	15	<b>(798,304)</b>	(915,731)
<b>PROFIT BEFORE EXPECTED CREDIT LOSSES</b>		<b>51,452,149</b>	38,349,858
Expected credit losses	10, 11 & 12	<b>(46,331,242)</b>	(235,721,657)
Recovery of debts previously written-off		<b>14,178,463</b>	19,746,804
<b>PROFIT / (LOSS) BEFORE ZAKAT</b>		<b>19,299,370</b>	(177,624,995)
Zakat	8	<b>(6,048,676)</b>	(2,295,736)
<b>NET PROFIT / (LOSS) FOR THE YEAR</b>		<b>13,250,694</b>	(179,920,731)

The attached notes 1 to 27 form an integral part of these financial statements.

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

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**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
For the year ended 31 December 2022

	<i>Note</i>	<b>2022</b> <b>SR</b>	<b>2021</b> <b>SR</b>
<b>NET PROFIT / (LOSS) FOR THE YEAR</b>		<b>13,250,694</b>	(179,920,731)
<b>OTHER COMPREHENSIVE (LOSS) / INCOME</b>			
<i>Items that will not be reclassified to profit or loss in subsequent periods</i>			
Re-measurement (loss) / gain on employees' defined benefit liabilities		<b>(867,726)</b>	616,528
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<b>12,382,968</b>	(179,304,203)

The attached notes 1 to 27 form an integral part of these financial statements.

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

**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2022

	<i>Note</i>	<b>2022 SR</b>	<b>2021 SR</b>
<b>ASSETS</b>			
Cash and cash equivalents	9	<b>182,349,318</b>	47,757,136
Advances, prepayments and other receivables	10	<b>32,097,110</b>	64,961,454
Net investment in finance leases	11	<b>734,924,317</b>	907,166,890
Murabaha financing receivables, net	12	<b>817,285,884</b>	617,407,629
Equipment, furniture, and vehicles	13	<b>2,576,899</b>	2,537,660
Right of use assets	14	<b>3,067,838</b>	6,683,093
Intangible assets	15	<b>2,348,424</b>	2,346,155
Equity investment at fair value through other comprehensive income	16	<b>892,850</b>	892,850
<b>TOTAL ASSETS</b>		<b>1,775,542,640</b>	1,649,752,867
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	17	<b>500,000,000</b>	500,000,000
Statutory reserve	18	<b>101,897,113</b>	100,572,044
Retained earnings		<b>72,189,755</b>	60,264,130
Actuarial losses on employees' defined benefit liabilities	19	<b>(3,893,335)</b>	(3,025,609)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>670,193,533</b>	657,810,565
<b>LIABILITIES</b>			
Accounts payables, accrued and other liabilities	20	<b>103,624,587</b>	80,307,353
Due to related parties	21	<b>19,927,177</b>	7,827,365
Lease liabilities	14	<b>2,562,781</b>	5,896,647
Term loans	22	<b>959,679,788</b>	881,161,059
Provision for zakat	8	<b>3,979,813</b>	2,322,923
Employees' defined benefit liabilities	19	<b>15,574,961</b>	14,426,955
<b>TOTAL LIABILITIES</b>		<b>1,105,349,107</b>	991,942,302
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>1,775,542,640</b>	1,649,752,867

The attached notes 1 to 27 form an integral part of these financial statements.

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

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the year ended 31 December 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 year	-	-	13,250,694	-	13,250,694
Other comprehensive loss	-	-	-	(867,726)	(867,726)
Total comprehensive income for the year	-	-	13,250,694	(867,726)	12,382,968
Transfer to statutory reserve	-	1,325,069	(1,325,069)	-	-
<b>Balance as at 31 December 2022</b>	<b>500,000,000</b>	<b>101,897,113</b>	<b>72,189,755</b>	<b>(3,893,335)</b>	<b>670,193,533</b>
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
Total comprehensive loss for the year	-	-	(179,920,731)	616,528	(179,304,203)
Balance as at 31 December 2021	500,000,000	100,572,044	60,264,130	(3,025,609)	657,810,565

The attached notes 1 to 27 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 2022

	<i>Note</i>	<i>2022 SR</i>	<i>2021 SR</i>
<b>OPERATING ACTIVITIES</b>			
Profit / (loss) before zakat		<b>19,299,370</b>	(177,624,995)
Adjustments for:			
Modification gains on investment in finance lease, net	5	<b>(6,845,061)</b>	(6,908,761)
Grant income on profit free deposit from SAMA	5	<b>(1,994,363)</b>	(5,015,127)
Financial charges	6	<b>6,781,918</b>	6,917,633
Modification gains on term loans, net	6	<b>4,642,998</b>	4,574,400
Expected credit losses	10, 11 & 12	<b>46,331,242</b>	235,721,657
Depreciation of equipment, furniture, and vehicles	13	<b>1,154,307</b>	1,224,078
Depreciation of right of use assets	14	<b>3,257,577</b>	3,297,669
Amortization of intangible assets	15	<b>798,304</b>	915,731
Intangibles written-off	15	<b>47,400</b>	12,000
Employees' defined benefit obligation	19	<b>2,179,300</b>	2,299,540
Gain on disposal of equipment, furniture, and vehicles		<b>(1,975)</b>	(115)
Income from modification of lease liabilities		<b>(313,819)</b>	-
<i>Working capital adjustments:</i>		<b>75,337,198</b>	65,413,710
Changes in operating assets and liabilities:			
Net investment in finance leases		<b>134,238,875</b>	129,632,320
Murabaha financing receivables		<b>(201,371,585)</b>	(281,549,470)
Advances, prepayments and other receivables		<b>32,875,191</b>	4,218,912
Due from a related party		-	102,262
Margin deposits		-	12,098,349
Accounts payables, accrued and other liabilities		<b>23,317,234</b>	(3,712,213)
Due to related parties		<b>12,099,812</b>	(8,348,263)
Net servicing liability for sold finance lease receivables		-	(1,500,593)
Cash from / (used in) operations		<b>76,496,725</b>	(83,644,986)
Zakat paid	8	<b>(4,391,786)</b>	(324,754)
Finance charges paid		<b>(7,642,173)</b>	(21,755,485)
Employees' defined benefit obligation paid	19	<b>(1,899,020)</b>	(4,251,372)
<b>Net cash from / (used in) operating activities</b>		<b>62,563,746</b>	(109,976,597)
<b>INVESTING ACTIVITIES</b>			
Purchase of equipment, furniture, and vehicles	13	<b>(1,204,879)</b>	(2,056,870)
Purchase of intangibles	15	<b>(847,973)</b>	-
Proceeds from disposal of equipment, furniture, and vehicles		<b>13,308</b>	115
<b>Net cash used in investing activities</b>		<b>(2,039,544)</b>	(2,056,755)
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings		<b>654,001,043</b>	1,250,352,909
Repayments of borrowings		<b>(577,143,344)</b>	(1,118,016,047)
Repayment of lease liabilities	14	<b>(2,789,719)</b>	(3,312,162)
<b>Net cash generated from financing activities</b>		<b>74,067,980</b>	129,024,700
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>134,592,182</b>	16,991,348
Cash and cash equivalents at the beginning of the year	9	<b>47,757,136</b>	30,765,788
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	9	<b>182,349,318</b>	47,757,136

The attached notes 1 to 27 form an integral part of these financial statements.

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

## **NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 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 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 financial statements include the results, assets and liabilities of the following branches:

<b>Commercial Registration Number</b>	<b>Location</b>
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 have been prepared in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants (collectively referred to as “IFRSs that are endorsed in KSA”).

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

#### **2.2 Basis of measurement**

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

These 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)**

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**2 BASIS OF PREPARATION (continued)**

**2.3 Functional and presentation currency**

These financial statements have been presented in Saudi Riyal ("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 these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material difference in the carrying amounts of assets and liabilities within the next financial period, are presented below. The Company used these assumptions and estimates on the basis available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

*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.

*Useful lives of equipment, furniture, and vehicles*

The management determines the estimated useful lives of its equipment, furniture, and vehicles for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

*Useful life of intangible assets*

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

*Development costs*

The Company capitalizes costs for product development projects. Initial capitalization of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

*Impairment of non-financial assets*

The carrying amounts of the non-financial assets are reviewed at the end of each reporting date or more frequently 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 if the carrying amount of an asset or a cash generating unit ("CGU") exceeds the recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using the pre-zakat discount rate that reflects the current market assessments of time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**2 BASIS OF PREPARATION (continued)**

**2.4 Significant accounting judgments, estimates and assumptions (continued)**

*Classification of financial assets*

Assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.

*Impairment of financial assets*

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

The Company's Expected Credit Loss (ECL) 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 Probabilities of Default (PDs) to the individual pool of receivables and assessing the exposure at default (EAD)
- The Company's criteria for assessing the credit losses for finance leases and murabaha financing receivables to be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment
- 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 formulas and the appropriate inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as government spending, and the effect on PDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

*Fair value measurement of financial instruments*

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

Instruments.

*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 several 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.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**2 BASIS OF PREPARATION (continued)**

**2.4 Significant accounting judgments, estimates and assumptions (continued)**

*Leases – 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.

*Actuarial valuation of employee benefits liabilities*

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

**2.5 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 2022. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

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 recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Company applies the amendments retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application). These amendments had no impact on the 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.

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

An onerous contract is a contract under which the unavoidable cost of meeting the obligations under the contract exceeds 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 including both incremental costs (e.g., the costs of direct labor and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and 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 financial statements of the Company as it has not identified any contract as onerous.

***IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter***

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent’s consolidated financial statements, based on the parent’s date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. These amendments had no impact on the financial statements of the Company as it is not a first-time adopter.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**2 BASIS OF PREPARATION (continued)**

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

***IAS 41 Agriculture – Taxation in fair value measurement***

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. These amendments had no impact on the financial statements of the Company as it did not have assets in scope of IAS 41 as at the reporting date.

***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 financial statements of the Company as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the year.

***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.

In accordance with the transitional provisions, the Company applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Company as there were no modifications of the Company's financial instruments during the year.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following are the significant accounting policies applied by the Company consistently in preparing these financial statements.

**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 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value measurement (continued)**

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.

For assets and liabilities that are recognized 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 year.

For the purpose of fair value disclosures, the Company determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**Foreign currency translation**

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in 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.

**Revenue recognition**

*Income from finance lease and musharaka arrangements*

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

*Income from murabaha receivables*

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

*Income from securitization and agency agreements*

Income from securitization and agency arrangements represents management fees due under the securitization and agency agreements with certain banks and is recognized on accrual basis.

*Others*

Other operating income comprises lease facilitation processing, contract fee income for lease initiation, customer credit assessment and registration. It is recognized immediately upon execution of the agreements with the customers.

**Government grants**

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. 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 recognized in statement of income on a systematic basis over the period(s) in which the Company recognizes related costs which the grant is intended to compensate and is presented together with the costs intended to be compensated.

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Expenses**

General and administrative expenses include direct and indirect costs not specifically part of the operating activities of the Company. Allocations between general and administrative expenses and direct costs, when required, are made on a consistent basis.

**Zakat**

The Company is subject to zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia. Provision for zakat is provided on accrual basis. The zakat charge is computed on the zakat base. The related provision is charged to profit or loss account. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined and expected to be paid to the ZATCA.

**Value added tax ("VAT")**

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

The net amount of VAT recoverable from, or payable to, ZATCA is included as part of other receivables or other payables.

**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.

**Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial assets**

***Initial recognition and measurement***

Financial assets at initial recognition, are measured at their fair values. Subsequent measurement of a financial asset is dependent on its classification and is either at amortised cost or fair value through other comprehensive income ("FVOCI") or fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that Company commits to purchase or sell the asset.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Financial asset (continued)**

***Subsequent measurement***

For purposes of subsequent measurement, financial assets are classified in following categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI (debt instruments)
- Financial assets designated at fair value through OCI (equity instruments)
- Financial assets at fair value through profit or loss

***Financial asset at amortised cost (debt instruments)***

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

- 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 interest on the principal amount outstanding.

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

***Financial assets at fair value through OCI (debt instruments)***

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

- 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 interest on the principal amount outstanding.

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

***Financial assets designated at fair value through OCI (equity instruments)***

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under *IAS 32 Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

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

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Financial asset (continued)**

***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 interest revenue, maintaining a particular interest 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;
- 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; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

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 realized 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.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' 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 interest, 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 interest rates.

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Financial Liabilities**

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, borrowings, payables, as appropriate.

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

***Subsequent measurement***

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

***Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognized in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

The Company has not designated any financial liability as at fair value through profit or loss.

***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 derecognized) 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 recognized in OCI is recognized in statement of income.

Any cumulative gain/ (loss) recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in statement of profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and- repurchase transactions, as the Company retains all or substantially all of the risks and rewards of ownership of such assets.

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.

***Financial liabilities***

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**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 derecognized, and a new financial asset is recognized 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 as interest income.

*Financial liabilities*

The Company derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in statement of profit or loss.

**Impairment**

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 Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- 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 Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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 the 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 will include the elements such as expert judgement, macroeconomic factors (e.g., unemployment, GDP growth, inflation and profit rates) and economic forecasts obtained through internal and external sources. Management applies additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model, if required.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Impairment (continued)**

***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 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, the Company measure loss allowance for stage 1 financial assets at an amount equal to 12 months expected credit losses. Where the expected lifetime of an asset 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 financial assets that are possible within 12 months after the reporting period. The financial assets 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**

If the terms of a financial asset 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 derecognized 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.

**Credit-impaired financial assets**

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset 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 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.

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. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Presentation of allowance for ECL in the statement of financial position**

Loss allowances for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- For financial instrument including both a drawn and an undrawn component, where the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

*Debt instruments measured at FVOCI*

No loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve. Impairment losses are recognized in statement of profit or loss and changes between the amortised cost of the assets and their fair value are recognized in OCI.

**Write-off**

Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial 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.

**Collateral repossession and disposal**

As part of collection strategy, all litigation tools including repossession could be used once the past dues of the customer exceed 90 days. Repossessed assets could only be returned to the customer either after complete settlement of past dues or after signing a rescheduling agreement. The Company waits for a cure period before offering the asset for sale and the Company notifies the customer in writing of its intention.

**Collateral valuation**

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as personal guarantees other non-financial assets. The immovable collateral is valued only by the Licensed Valuers. However, for movable collateral, the Company uses market prices through dealers/sellers of identical or similar assets, benchmarking recent sale of repossessed assets and financing of similar used for movable branded collateral or through written-down values.

**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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

**Net investment in finance leases**

The determination of whether an arrangement contains a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Gross investment in finance leases represents the gross lease payments receivable by the Company, and the net investment represents the present value of these lease payments, discounted at commission rate implicit in the lease.

Contracts based on Musharaka, which in substance represents a syndicated lease arrangement, is recorded as net investment in finance lease and is stated at cost less expected credit losses and represent the balance of the Company's share in the Musharaka funding.

**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 installments. Murabaha financing receivables represent financial assets held at amortised cost.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Equipment, furniture, and vehicles**

Equipment, furniture, and vehicles are initially recorded at cost and stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the asset including any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located.

The cost less estimated residual value of equipment, furniture, and vehicles is depreciated on a straight-line basis over the estimated useful lives of the assets and is generally recognized in the statement of profit or loss and other comprehensive income. 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. Capital work-in-progress is not depreciated.

The following rates of depreciation are applied:

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

Depreciation methods, estimated useful lives and residual values are reviewed at each reporting date and adjusted with the effect of any changes in estimate accounted for on a prospective basis.

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 equipment, furniture, and vehicles and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

The carrying values of equipment, furniture, and vehicles 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.

**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 amortization and accumulated impairment losses. Internally generated intangibles are not capitalized and the related expenditure is reflected in the statement of profit or loss in the period in which the expenditure is incurred.

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 amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss.

Subsequent costs are included in the asset's carrying amounts or recognized 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 recognized in the statement of profit or loss when the asset is derecognized.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Leases**

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

*Company as a lessee*

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use assets*

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, if any, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

*Lease liabilities*

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

*Variable lease payments*

Some leases contain variable payments that are linked to the usage/performance of the leased asset. Such payments are recognized in statement of profit or loss.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognized in the statement of profit or loss if those expense categories are consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss.

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

**Onerous contracts**

An onerous contract is one where the unavoidable costs of meeting the Company's contractual obligations exceed the expected economic benefits. If the Company has a contract that is onerous, it recognizes the present obligation under the contract as a provision. The estimated future cash flows of the onerous contract are discounted at the Company's weighted average cost of capital ("WACC"). The unwinding of the discount is expensed as incurred and recognized in the statement of profit or loss as a finance cost.

**Employees' end-of-service-benefits**

These represent end-of-service benefits under defined unfunded benefit plans. End-of-service benefits, as required by Saudi Arabia Labor Law, are required to be provided based on the employees' length of service.

The Company's net obligations in respect of defined unfunded benefit plan are calculated separately by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs.

The discount rate used is the market yield on government bonds at the reporting date that has maturity dates approximating the terms of the Company's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Company's present value of the obligation by a qualified actuary, with actuarial valuations to be carried out every third year and updated for the following two years for material changes, if any. The defined benefit liability comprises of the following:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- Net interest expense/income; and
- Remeasurement gains/(losses)

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Employees' end-of-service-benefits (continued)**

The Company recognizes and presents the first two components of the defined benefit costs in profit or loss. Gains/(losses) due to re-measurement of employee benefits liabilities are recognized in other comprehensive income immediately. Curtailment gains/(losses) are accounted for as past service cost in the profit or loss in the period of plan amendment.

The Company is also required to contribute towards a state-owned benefit plan, General Organization for Social Insurance ("GOSI"), where the Company's obligation under the plan is to make specified monthly contribution based on specified percentage of payroll cost as stipulated under the regulation. These contributions are recognized as an expense when employees have rendered the service entitling them to the contributions. Any unpaid amounts are classified as accruals.

A liability is also recognized for benefits accruing to the employees in respect of wages and salaries, annual leaves and other related benefits in the period the related services are rendered at the undiscounted amount of the benefits expected to be paid and are classified as accruals.

**4 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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

**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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

**Amendments to IAS 1: Classification of Liabilities as Current or Non-current**

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments are not expected to have impact on the financial statements of the Company.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**4 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

**Definition of Accounting Estimates - Amendments to IAS 8**

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the financial statements of the Company.

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides 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 to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The amendments are not expected to have a material impact on the financial statements of the Company.

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

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

**5 REVENUE, NET**

	2022 SR	2021 SR
Finance income from finance leases (note 5.1)	71,536,486	64,655,620
Finance income from murabaha financing	49,803,463	33,564,231
Unwinding of modification losses, net (note 5.2)	6,845,061	6,908,761
Grant income (note 25)	1,994,363	5,015,127
Income from servicing arrangements, net	-	1,477,709
	<u>130,179,373</u>	<u>111,621,448</u>

5.1 Earned lease income is net of the insurance expense of SR 5.4 million (2021: SR 13.26 million).

5.2 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 25).

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**6 FINANCE COSTS**

	<i>2022</i> <i>SR</i>	<i>2021</i> <i>SR</i>
Finance charges	<b>6,781,918</b>	6,917,633
Modification gains/(losses) on deferment of term loan, net (note 25)	<b>4,642,998</b>	4,574,400
	<b><u>11,424,916</u></b>	<u>11,492,033</u>

**7 GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>2022</i> <i>SR</i>	<i>2021</i> <i>SR</i>
Salaries and other employee's benefits	<b>47,580,651</b>	43,101,903
Consultancy charges	<b>3,013,055</b>	4,424,857
Software maintenance and other charges	<b>2,977,838</b>	3,067,319
Outsourced employee's cost	<b>2,089,088</b>	-
Communication and networking	<b>1,386,033</b>	1,334,716
Others	<b>5,045,455</b>	4,413,284
	<b><u>62,092,120</u></b>	<u>56,342,079</u>

**8 ZAKAT**

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

	<i>2022</i> <i>SR</i>	<i>2021</i> <i>SR</i>
At the beginning of the year	<b>2,322,923</b>	351,941
Charge for the year	<b>6,048,676</b>	2,295,736
Payment during the year	<b>(4,391,786)</b>	(324,754)
At the end of the year	<b><u>3,979,813</u></b>	<u>2,322,923</u>

Charge for the year is as follows:

	<i>2022</i> <i>SR</i>	<i>2021</i> <i>SR</i>
Charge for the year	<b>3,979,813</b>	2,295,736
Related to prior years	<b>2,068,863</b>	-
	<b><u>6,048,676</u></b>	<u>2,295,736</u>

**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 FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**9 CASH AND BANK BALANCES**

	2022 SR	2021 SR
Cash in hand	160,000	155,441
Bank balances (note 9.1)	57,000,318	47,601,695
Term deposits with original maturity of less than three months	125,189,000	-
	<u>182,349,318</u>	<u>47,757,136</u>

9.1 At 31 December, all bank balances are maintained with local banks, which are rated at investment grade levels. Moreover, balance with banks includes SR 43.3 million (2021: SR 29.6 million) maintained with a related party (note 21).

9.2 The carrying value of bank balances 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.

**10 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES**

	2022 SR	2021 SR
Insurance claims receivable, net (note 10.1)	8,397,486	6,456,068
Prepaid expenses	6,800,722	1,545,822
Advances to employees	2,554,876	2,701,022
Advance payments, net (note 10.2)	1,508,286	34,684,115
Other receivables	12,835,740	19,574,427
	<u>32,097,110</u>	<u>64,961,454</u>

10.1 It represents insurance paid on behalf of customers amounting to SR 21 million (2021: SR 19 million), against which an allowance for expected credit losses of SR 12.6 million (2021: SR 12.6 million) has been maintained. During the year ended 31 December 2022, reversal of expected credit losses amounting to SR 10,847 (31 December 2021: charge of SR 411,897) was recognized.

10.2 It represents advance payment to suppliers and musharaka partner amounting to SR 0.44 million (31 December 2021: SR 30.1 million) and SR 1.06 million (31 December 2021: SR 4.5 million) respectively.

**11 NET INVESTMENT IN FINANCE LEASES**

	2022 SR	2021 SR
Gross investment in finance leases (note 11.1)	923,515,670	1,243,948,133
Less: unearned finance income	(64,711,193)	(71,944,725)
Less: modification losses (note 11.2)	(1,631,096)	(9,182,536)
Net investment in finance leases before expected credit losses (ECL)	857,173,381	1,162,820,872
Less: expected credit losses	(122,249,064)	(255,653,982)
Net investment in finance leases	<u>734,924,317</u>	<u>907,166,890</u>

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**11 NET INVESTMENT IN FINANCE LEASES (continued)**

The contractual maturity of the investment in finance lease is as follows:

<b>2022</b>	<b>Years</b>	<i>Gross investment SR</i>	<i>Unearned finance income SR</i>	<i>Modification losses SR</i>	<i>Net investment before ECL SR</i>	<i>Expected credit losses SR</i>	<i>Net investment SR</i>
Current portion	2023	<b>615,420,019</b>	<b>(47,427,505)</b>	<b>(1,631,096)</b>	<b>566,361,418</b>	<b>(81,465,344)</b>	<b>484,896,074</b>
Non - current portion	2024	<b>237,223,146</b>	<b>(14,963,476)</b>	-	<b>222,259,670</b>	<b>(31,402,074)</b>	<b>190,857,596</b>
	2025	<b>67,893,742</b>	<b>(2,317,403)</b>	-	<b>65,576,339</b>	<b>(8,987,337)</b>	<b>56,589,002</b>
	2026	<b>2,978,763</b>	<b>(2,809)</b>	-	<b>2,975,954</b>	<b>(394,309)</b>	<b>2,581,645</b>
Total non - current portion		<b>308,095,651</b>	<b>(17,283,688)</b>	-	<b>290,811,963</b>	<b>(40,783,720)</b>	<b>250,028,243</b>
31 December		<b>923,515,670</b>	<b>(64,711,193)</b>	<b>(1,631,096)</b>	<b>857,173,381</b>	<b>(122,249,064)</b>	<b>734,924,317</b>

<b>2021</b>	<b>Years</b>	<i>Gross investment SR</i>	<i>Unearned finance income SR</i>	<i>Modification losses SR</i>	<i>Net investment before ECL SR</i>	<i>Expected credit losses SR</i>	<i>Net investment SR</i>
Current portion	2022	860,952,543	(51,917,117)	(7,551,440)	801,483,986	(175,721,225)	625,762,761
Non - current portion	2023	285,904,415	(16,892,779)	(1,504,327)	267,507,309	(59,917,815)	207,589,494
	2024	93,925,302	(3,090,348)	(124,361)	90,710,593	(19,326,844)	71,383,749
	2025	3,165,873	(44,481)	(2,408)	3,118,984	(688,098)	2,430,886
Total non - current portion		382,995,590	(20,027,608)	(1,631,096)	361,336,886	(79,932,757)	281,404,129
31 December		1,243,948,133	(71,944,725)	(9,182,536)	1,162,820,872	(255,653,982)	907,166,890

The investment in finance lease is due as follows:

	<b>2022 SR</b>	<b>2021 SR</b>
Not yet due	<b>697,982,624</b>	786,940,911
Overdue balances		
1 – 3 months	<b>27,166,003</b>	39,093,273
3 – 6 months	<b>8,063,980</b>	18,163,370
6 – 12 months	<b>5,562,311</b>	36,959,459
More than 12 months	<b>118,398,463</b>	281,663,859
	<b>159,190,757</b>	375,879,961
	<b>857,173,381</b>	1,162,820,872

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**11 NET INVESTMENT IN FINANCE LEASES (continued)**

The movement in allowance for expected credit losses is as follows:

	2022 SR	2021 SR
At the beginning of the year	255,653,982	118,493,303
Charge during the year	44,848,759	181,966,511
Transfers (note 11.6)	-	3,176,345
Written-off during the year (note 11.7)	(178,253,677)	(47,982,177)
At the end of the year	<u>122,249,064</u>	<u>255,653,982</u>

11.1 The gross investment in finance leases include SR 0.1 million (31 December 2021: SR 0.5 million) receivable from related parties.

11.2 This represents modification losses arising due to payment deferral granted by the Company to the eligible customers pursuant to SAMA Support Program (note 25) and subsequent (unwinding) of such modification losses.

11.3 As at 31 December 2022, 15% of the gross investment in finance leases corresponds to top five customers (2021: 13%).

11.4 The Company has entered into musharaka 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 2022 amounted to SR 704 million (2021: SR 722 million). The Company has recorded these transactions as net investment in finance leases up to the extent of its share in the musharaka arrangement. As at 31 December 2022, the investments in musharaka, amounted to SR 49.9 million (2021: SR 76.6 million), which represents the Company's maximum exposure in respect of these agreements.

11.5 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.

11.6 During the year ended 31 December 2021, the Company bought back a securitized finance lease receivables pool amounting SR 13.8 million. As such the expected credit loss allowance amounting to SR 3.1 million maintained against the corresponding margin deposit was transferred to the net investment in finance lease. There are no transfers during 2022 as the Company does not have any securitized pools as at 31 December 2022.

11.7 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 0.32 million (2021: 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.

11.8 As at 31 December 2022, finance lease receivables include an amount of SR 153 million (2021: SR 322 million) corresponding to customers which are subject to specific assessment of credit risk for the purpose of determination of expected credit loss, amounting to SR 114 million (2021: SR 223 million).

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**12 MURABAHA FINANCING RECEIVABLES**

	<b>2022</b>	<b>2021</b>
	<b>SR</b>	<b>SR</b>
Murabaha financing receivables	<b>958,104,462</b>	761,239,455
Less: unearned finance income	<b>(89,957,693)</b>	(75,201,650)
	<b>868,146,769</b>	686,037,805
Murabaha financing receivables before expected credit losses (ECL)	<b>868,146,769</b>	686,037,805
Less: expected credit losses	<b>(50,860,885)</b>	(68,630,176)
	<b>817,285,884</b>	617,407,629
	<b>817,285,884</b>	617,407,629

The contractual maturity of the murabaha receivables is as follows:

<b>31 December 2022</b>	<b>Years</b>	<i>Gross murabaha SR</i>	<i>Unearned finance income SR</i>	<i>Net investment before ECL SR</i>	<i>Expected credit losses SR</i>	<i>Net murabaha receivables SR</i>
Current portion	2023	<b>493,123,632</b>	<b>(56,265,186)</b>	<b>436,858,446</b>	<b>(26,177,422)</b>	<b>410,681,024</b>
Non-current portion	2024	<b>297,743,643</b>	<b>(23,880,977)</b>	<b>273,862,666</b>	<b>(15,805,693)</b>	<b>258,056,973</b>
	2025	<b>124,812,348</b>	<b>(8,067,337)</b>	<b>116,745,011</b>	<b>(6,625,652)</b>	<b>110,119,359</b>
	2026	<b>39,822,773</b>	<b>(1,744,193)</b>	<b>38,078,580</b>	<b>(2,113,988)</b>	<b>35,964,592</b>
	2027	<b>2,602,066</b>	<b>-</b>	<b>2,602,066</b>	<b>(138,130)</b>	<b>2,463,936</b>
Total non-current portion		<b>464,980,830</b>	<b>(33,692,507)</b>	<b>431,288,323</b>	<b>(24,683,463)</b>	<b>406,604,860</b>
<b>Total</b>		<b>958,104,462</b>	<b>(89,957,693)</b>	<b>868,146,769</b>	<b>(50,860,885)</b>	<b>817,285,884</b>

<b>31 December 2021</b>	<b>Years</b>	<i>Gross murabaha SR</i>	<i>Unearned finance income SR</i>	<i>Net investment before ECL SR</i>	<i>Expected credit losses SR</i>	<i>Net murabaha receivables SR</i>
Current portion	2022	341,121,798	(39,661,938)	301,459,860	(30,754,120)	270,705,740
Non-current portion	2023	224,012,811	(20,843,416)	203,169,395	(20,196,061)	182,973,334
	2024	119,818,300	(9,372,037)	110,446,263	(10,802,318)	99,643,945
	2025	40,364,949	(4,387,318)	35,977,631	(3,639,136)	32,338,495
	2026	35,921,597	(936,941)	34,984,656	(3,238,541)	31,746,115
Total non-current portion		420,117,657	(35,539,712)	384,577,945	(37,876,056)	346,701,889
<b>Total</b>		761,239,455	(75,201,650)	686,037,805	(68,630,176)	617,407,629

The murabaha financing receivables are due as follows:

	<b>2022</b>	<b>2021</b>
	<b>SR</b>	<b>SR</b>
Not yet due	<b>829,039,264</b>	662,658,602
Overdue balances		
1 – 3 months	<b>13,855,239</b>	15,694,642
3 – 6 months	<b>6,259,551</b>	4,134,411
6 – 12 months	<b>8,365,582</b>	3,550,150
More than 12 months	<b>10,627,133</b>	-
	<b>39,107,505</b>	23,379,203
	<b>868,146,769</b>	686,037,805

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**12 MURABAHA FINANCING RECEIVABLES (continued)**

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

	2022 SR	2021 SR
At the beginning of the year	68,630,176	15,455,338
Charge for the year	1,493,330	53,343,249
Written-off during the year	(19,262,621)	(168,411)
	<u>50,860,885</u>	<u>68,630,176</u>

**13 EQUIPMENT, FURNITURE AND VEHICLES**

Equipment, furniture and vehicles at 31 December 2022 comprise of the following:

	Office equipment	Furniture and fixtures	Leased Vehicles	Motor vehicles	Capital work in progress	Total
<b>Cost:</b>						
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)
	<u>10,140,089</u>	<u>6,505,166</u>	<u>1,002,710</u>	<u>597,294</u>	<u>29,501</u>	<u>18,274,760</u>
At 31 December 2021	10,140,089	6,505,166	1,002,710	597,294	29,501	18,274,760
Additions	438,979	142,986	-	-	622,914	1,204,879
Disposals	(45,688)	-	-	-	-	(45,688)
Transfers from CWIP	110,492	95,967	-	-	(206,459)	-
	<u>10,643,872</u>	<u>6,744,119</u>	<u>1,002,710</u>	<u>597,294</u>	<u>445,956</u>	<u>19,433,951</u>
<b>At 31 December 2022</b>	<b>10,643,872</b>	<b>6,744,119</b>	<b>1,002,710</b>	<b>597,294</b>	<b>445,956</b>	<b>19,433,951</b>
<b>Depreciation:</b>						
At 1 January 2021	7,316,495	5,755,681	1,002,710	443,236	-	14,518,122
Additions	945,353	235,757	-	42,968	-	1,224,078
Relating to disposals	(5,100)	-	-	-	-	(5,100)
	<u>8,256,748</u>	<u>5,991,438</u>	<u>1,002,710</u>	<u>486,204</u>	<u>-</u>	<u>15,737,100</u>
At 31 December 2021	8,256,748	5,991,438	1,002,710	486,204	-	15,737,100
Charge for the year	950,023	161,224	-	43,060	-	1,154,307
Relating to disposals	(34,355)	-	-	-	-	(34,355)
	<u>9,172,416</u>	<u>6,152,662</u>	<u>1,002,710</u>	<u>529,264</u>	<u>-</u>	<u>16,857,052</u>
<b>At 31 December 2022</b>	<b>9,172,416</b>	<b>6,152,662</b>	<b>1,002,710</b>	<b>529,264</b>	<b>-</b>	<b>16,857,052</b>
<b>Net book amounts:</b>						
<b>At 31 December 2022</b>	<u><u>1,471,456</u></u>	<u><u>591,457</u></u>	<u><u>-</u></u>	<u><u>68,030</u></u>	<u><u>445,956</u></u>	<u><u>2,576,899</u></u>
	<u>1,883,341</u>	<u>513,728</u>	<u>-</u>	<u>111,090</u>	<u>29,501</u>	<u>2,537,660</u>
At 31 December 2021	1,883,341	513,728	-	111,090	29,501	2,537,660

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**14 RIGHT OF USE ASSETS AND LEASE LIABILITIES**

The movement in carrying amounts of right-of-use assets and corresponding lease liabilities is as follows;

**Right of use assets**

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Balance at 1 January	<b>6,683,093</b>	9,980,762
Charge for the year	<b>(3,257,577)</b>	(3,297,669)
Contracts termination	<b>(405,994)</b>	-
Modification	<b>48,316</b>	-
	<hr/>	<hr/>
At 31 December 2022	<b>3,067,838</b>	6,683,093
	<hr/> <hr/>	<hr/> <hr/>

**Lease Liabilities**

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
At 1 January	<b>5,896,647</b>	8,675,255
Accrued interest	<b>127,349</b>	533,554
Payments	<b>(2,789,718)</b>	(3,312,162)
Contracts terminations	<b>(384,044)</b>	-
Modification	<b>(287,453)</b>	-
	<hr/>	<hr/>
At 31 December	<b>2,562,781</b>	5,896,647
	<hr/> <hr/>	<hr/> <hr/>

The following table details the Company's remaining contractual maturity for its lease liability. The table includes both interest and principal cash flows.

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Within one year	<b>2,562,781</b>	2,905,119
One to five years	<b>-</b>	2,991,528
	<hr/>	<hr/>
	<b>2,562,781</b>	5,896,647
	<hr/> <hr/>	<hr/> <hr/>

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**15 INTANGIBLE ASSETS**

	<i>Cost SR</i>	<i>Capital work in progress SR</i>	<i>Total SR</i>
<b>Cost:</b>			
At 1 January 2021	11,121,256	334,457	11,455,713
Additions	285,491	558,652	844,143
Transfers	-	(12,000)	(12,000)
Write off	466,151	(466,151)	-
	<u>11,872,898</u>	<u>414,958</u>	<u>12,287,856</u>
At 31 December 2021	<b>11,872,898</b>	<b>414,958</b>	<b>12,287,856</b>
Additions	<b>38,370</b>	<b>809,603</b>	<b>847,973</b>
Transfers	<b>133,079</b>	<b>(133,079)</b>	<b>-</b>
Disposal	<b>-</b>	<b>(47,400)</b>	<b>(47,400)</b>
	<u>12,044,347</u>	<u>1,044,082</u>	<u>13,088,429</u>
<b>At the end of the year</b>	<b>12,044,347</b>	<b>1,044,082</b>	<b>13,088,429</b>
<b>Amortization:</b>			
At 1 January 2021	9,025,970	-	9,025,970
Amortization for the year	915,731	-	915,731
	<u>9,941,701</u>	<u>-</u>	<u>9,941,701</u>
At 31 December 2021	<b>9,941,701</b>	<b>-</b>	<b>9,941,701</b>
Amortization for the year	<b>798,304</b>	<b>-</b>	<b>798,304</b>
	<u>10,740,005</u>	<u>-</u>	<u>10,740,005</u>
<b>At the end of the year</b>	<b>10,740,005</b>	<b>-</b>	<b>10,740,005</b>
<b>Net carrying value at 31 December 2022</b>	<b>1,304,342</b>	<b>1,044,082</b>	<b>2,348,424</b>
Net carrying value at 31 December 2021	1,931,197	414,958	2,346,155

Intangible assets represent costs incurred with respect to the acquisition of software license fee. Intangible assets are being amortized over a useful life of 5 years.

**16 EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

On 14 December 2017, the Company initially subscribed to 2.38% shareholding in Saudi Company for Registration of Financial Leasing Contracts ("Registration Company"), registered in the Kingdom of Saudi Arabia for SR 892,850. At 31 December 2022 the Company is subscribed to 2.326% shareholding amounting to SR 892,500. 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. Other finance and leasing Companies, registered in the Kingdom of Saudi Arabia, also have a pro-rata ownership interest in the Registration Company. The management believes that the carrying amount is approximately equivalent to the fair value of the investment. This investment is classified under level 3 of the fair value hierarchy.

**17 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 31 December 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>31 December 2022 SR</i>	<i>31 December 2021 SR</i>	<i>Percentage of ownership %</i>
Riyad Bank	<b>24,230,769</b>	<b>242,307,690</b>	242,307,690	<b>48.46</b>
Zahid Group Holding Company Limited	<b>17,307,692</b>	<b>173,076,920</b>	173,076,920	<b>34.62</b>
Al – Yemni Investments	<b>3,461,539</b>	<b>34,615,390</b>	34,615,390	<b>6.92</b>
Hussein Alireza Sons Company Limited	<b>2,500,000</b>	<b>25,000,000</b>	25,000,000	<b>5.00</b>
Khaled Ahmed Al Juffali Company	<b>2,500,000</b>	<b>25,000,000</b>	25,000,000	<b>5.00</b>
	<u><b>50,000,000</b></u>	<u><b>500,000,000</b></u>	<u>500,000,000</u>	<u><b>100.00</b></u>

The Company is fully owned by Saudi shareholders.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**18 STATUTORY RESERVE**

As required by the regulations for Companies and Company's By-laws, 10% of the profit for the year, has been transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve, up to 30% of the share capital, is not available for distribution.

**19 EMPLOYEES' DEFINED BENEFIT LIABILITIES**

	2022 SR	2021 SR
Present value of unfunded defined benefit liabilities	<b>15,574,961</b>	14,426,955

The major financial assumptions used to calculate the defined unfunded benefits plan (end-of-service benefits) liabilities are as follows:

<b>Principal actuarial assumptions</b>	2022	2021
Discount rate	<b>4.60%</b>	2.85%
Future salary growth / expected rate of salary increases for 1 year	<b>2.50%</b>	2.50%
Retirement age	<b>60 years</b>	60 years

a) The movements in defined benefit liabilities recognized in the statement of financial position are as follows:

	2022 SR	2021 SR
At beginning of the year	<b>14,426,955</b>	16,995,315
<b><i>Included in statement of profit or loss</i></b>		
Current service cost	<b>1,798,203</b>	1,919,339
Interest cost	<b>381,097</b>	380,201
<b><i>Included in statement of other comprehensive income</i></b>		
Actuarial gain arising from change in financial assumptions	<b>(3,733,050)</b>	(2,550,958)
Actuarial loss arising on account of experience changes	<b>4,600,776</b>	1,934,430
Payments made during the year	<b>(1,899,020)</b>	(4,251,372)
<b>31 December</b>	<b>15,574,961</b>	14,426,955

Assumptions regarding future mortality have been based on published statistics and mortality tables.

The weighted average remaining duration of the defined benefit obligations is 10.67 years (2021: 12.94 years).

*Sensitivity analysis*

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

<b>End of service benefits</b>	<b>31 December 2022</b>		<b>31 December 2021</b>	
	<b><i>Increase</i></b>	<b><i>Decrease</i></b>	<b><i>Increase</i></b>	<b><i>Decrease</i></b>
Discount rate (1% movement)	<b>(1,638,136)</b>	<b>1,977,738</b>	(1,811,583)	2,216,251
Future salary growth (1% movement)	<b>2,000,862</b>	<b>(1,683,559)</b>	2,200,866	(1,833,344)

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**20 ACCOUNTS PAYABLES, ACCRUED AND OTHER LIABILITIES**

	<i>2022</i> <i>SR</i>	<i>2021</i> <i>SR</i>
Accounts and other payables	<b>66,130,756</b>	25,347,897
Advance from customers	<b>16,567,817</b>	19,970,049
Accrued expenses	<b>8,562,149</b>	11,213,147
Other payables	<b>12,363,865</b>	23,776,260
	<b>103,624,587</b>	80,307,353

Accounts and other payables includes SR 37.62 million (31 December 2021: SR 14.98 million) received from customers in respect of musharaka arrangements pending onward transfer to banks and an advance received from musharaka partner under musharaka arrangements with respect to new deals with customers amounting to SR nil (2021: 4.37 million).

**21 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.

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

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of the transactions</i>	
		<i>2022</i> <i>SR</i>	<i>2021</i> <i>SR</i>
Riyad Bank	Financial charges on term loan	<b>2,920,510</b>	2,551,148
	Borrowing of term loans	<b>55,000,000</b>	361,000,000
	Repayment of term loans	<b>143,666,667</b>	260,666,667
	Musharaka financing arrangements	<b>100,649,774</b>	137,488,462
Zahid Tractor and Heavy Machinery Company Limited	Purchase of leasing equipment	<b>236,265,166</b>	301,132,185
	Services received	<b>535,060</b>	865,867
Wared Transport Company	Services received	<b>1,978</b>	4,747
Saudi Company of Site Technology Limited	Purchase of leasing equipment	<b>413,109</b>	472,454
The Machinery Group LLC (TAMGO)	Purchase of leasing equipment	<b>14,911,742</b>	11,317,862
Juffali Industrial Product Company	Purchase of leasing equipment	<b>10,346,228</b>	56,621,400
Haji Hussein Ali Reza Company Limited	Purchase of leasing equipment	<b>20,640,340</b>	8,009,750
Zahid Travel Group	Services received	<b>108,922</b>	33,642
AL TAAQA Alternative Solutions Company Limited	Purchase of leasing equipment	<b>1,117,800</b>	-
EJAR Machinery Rental Alternative Company Limited	Purchase of leasing equipment	<b>3,595,592</b>	407,906
Juffali Printing Systems Company	Purchase of leasing equipment	<b>338,453</b>	52,762
Nihad Abdullah Arab & Sons Limited Company	Services received	<b>220,800</b>	203,723
Al-Yemni Motors Company Limited	Purchase of leasing equipment	<b>3,783,500</b>	-
Arabian Company for Marketing Services LLC	Services received	-	41,400
Board of Directors	Remuneration to the members	<b>1,200,000</b>	1,200,000
Members of Audit Committee	Remuneration to the members	<b>210,000</b>	375,000

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**21 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

Due to related parties comprise the following:

	<i>31 December</i> <i>2022</i> <i>SR</i>	<i>31 December</i> <i>2021</i> <i>SR</i>
Zahid Tractor and Heavy Machinery Company Limited	<b>15,364,552</b>	5,975,810
The Machinery Group LLC (TAMGO)	<b>4,476,375</b>	228,206
Al-Yemni Motors Company Limited	<b>86,250</b>	-
Members of Audit Committee	-	93,750
Board of Directors	-	1,500,000
Juffali Printing Systems Company	-	17,507
Saudi Company of Site Technology Limited	-	10,764
OCS Arabia Company LLC	-	1,328
	<b>19,927,177</b>	<b>7,827,365</b>

21.1 Cash and cash equivalents include an amount of SR 43.3 million (31 December 2021: SR 29.6 million) that is kept with a related party.

21.2 Lease liabilities include an amount of SR 0.23 million (31 December 2021: SR 0.85 million) with respect to lease agreement entered with a related party.

21.3 Term loans includes SR 61.98 million (31 December 2021: SR 150.3 million) payable to related party.

21.4 Accounts and other payables includes SR 21.6 million (31 December 2021: SR 7 million) in respect of musharaka arrangements payable to a related party.

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

	<i>31 December</i> <i>2022</i> <i>SR</i>	<i>31 December</i> <i>2021</i> <i>SR</i>
Short term employee benefits	<b>7,972,234</b>	6,593,255
Post-employment benefit	<b>735,908</b>	626,880
Non-monetary benefits	<b>217,149</b>	118,755
	<b>8,925,291</b>	<b>7,338,890</b>

**22 TERM LOANS**

	<i>31 December</i> <i>2022</i> <i>SR</i>	<i>31 December</i> <i>2021</i> <i>SR</i>
Short term loans (note 22.1)	-	235,732,938
Long term loans (note 22.2)	<b>775,067,275</b>	507,273,802
SAMA profit free deposit (note 6.1 & note 25)	<b>184,612,513</b>	138,154,319
	<b>959,679,788</b>	<b>881,161,059</b>

22.1 These represented 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 carried fixed profit rates and were secured against promissory notes issued by the Company and have been settled during the year ended 31 December 2022.

22.2 These represent long term loans from various local banks amounting to SR 138.5 million (31 December 2021: SR 226 million), loan from Social Development Bank ("SDB") under "Monhsa'at Program" amounting to SR 11 million (31 December 2021: SR 33 million) and SR 625.5 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 November 2025.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**23 FINANCIAL RISK MANAGEMENT**

The Company's significant financial liabilities include accounts payable, due to related parties, term loans, lease liabilities and other liabilities and are initially measured at fair value and thereafter stated at their amortized cost. Financial assets comprise of cash and bank balances, net investment in finance lease and murabaha finance receivables, and other receivables and are initially measured at fair value and thereafter stated at cost or amortized cost as reduced by allowance for impairment, if any.

The Company is exposed to market risk, liquidity risk and credit risk. The Company's senior management oversees the management of these risks. The Company's senior management is supported by a Treasury Department that advises on the financial risks and the appropriate financial risk governance framework. The Treasury Department provides assurance to the senior management that the financial risk activities are governed by appropriate policies and procedures and that the financial risks are identified, measured and managed in accordance with the policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

**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.

*Currency risk*

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies, in case the Company does not hedge its currency exposure by means of hedging instruments. All of the Company's transactions are made in Saudi Riyals. As the Company did not undertake significant transactions in currencies other than Saudi Riyals, during the year, the Company was not exposed to any significant currency risk.

*Profit rate risk*

Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market profit rates. As at 31 December 2022 and 31 December 2021, the Company is not exposed to significant profit rate risk as its special commission bearing assets and liabilities carry fixed rates.

*Other 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.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur 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 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.

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 expected credit losses against finance lease and murabaha financing receivable is maintained at a level which, in the judgment of management, is adequate to provide for impairment losses on delinquent receivables. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular segment of customers.

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.

All murabaha transactions are secured through promissory notes. In some cases, property is mortgaged as an additional security and as a risk mitigating factor.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Credit risk (continued)**

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties (within and outside Saudi Arabia) and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Company's Management on an annual basis and may be updated throughout the year subject to approval of the Company's Management. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments. There has been no history of default with any of the bank balance, therefore, the probability of default based on forward looking factors and any loss given defaults are negligible.

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.

An analysis of gross exposure of investment in finance lease and corresponding ECL allowance is as follows:

<i>31 December 2022</i>	<i>Not yet due</i>	<i>0 – 30 days</i>	<i>31-60 days</i>	<i>61 – 90 days</i>	<i>&gt; 90 days</i>	<i>Total</i>
	<i>-----SR-----</i>					
Gross exposure	<b>532,537,143</b>	<b>111,449,272</b>	<b>58,742,126</b>	<b>49,625,842</b>	<b>171,161,287</b>	<b>923,515,670</b>
ECL	<b>921,865</b>	<b>507,183</b>	<b>418,283</b>	<b>28,612,696</b>	<b>91,789,037</b>	<b>122,249,064</b>
<i>31 December 2021</i>	<i>Not yet due</i>	<i>0 – 30 days</i>	<i>31-60 days</i>	<i>61 – 90 days</i>	<i>&gt; 90 days</i>	<i>Total</i>
	<i>-----SR-----</i>					
Gross exposure	514,455,968	192,475,612	101,856,554	38,949,583	396,210,416	1,243,948,133
ECL	5,594,116	4,939,398	3,322,371	2,622,632	239,175,465	255,653,982

An analysis of gross exposure of murabaha financing receivables and the corresponding ECL allowance is as follows:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>-----SR-----</i>			
<i>At 31 December 2022</i>				
Gross exposure	<b>804,971,235</b>	<b>74,125,530</b>	<b>79,007,697</b>	<b>958,104,462</b>
ECL	<b>20,724,993</b>	<b>5,967,531</b>	<b>24,168,361</b>	<b>50,860,885</b>
<i>At 31 December 2021</i>				
Gross exposure	556,997,885	15,755,835	188,485,735	761,239,455
ECL	10,745,992	1,342,713	56,541,471	68,630,176

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**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 as at the statement of financial position date, based on contractual payment dates:

	<i>Less than a year SR</i>	<i>1 to 3 year SR</i>	<i>Interest accruals for future periods SR</i>	<i>Total SR</i>
<i>At 31 December 2022</i>				
Accounts payable and other liabilities	78,494,621	-	-	78,494,621
Due to related parties	19,927,177	-	-	19,927,177
Lease liabilities	2,562,781	-	44,407	2,607,188
Term loans	541,325,620	418,354,168	3,275,958	962,955,746
	<u>642,310,199</u>	<u>418,354,168</u>	<u>3,320,365</u>	<u>1,063,984,732</u>
	<i>Less than a year SR</i>	<i>1 to 3 year SR</i>	<i>Interest accruals for future periods SR</i>	<i>Total SR</i>
<i>At 31 December 2021</i>				
Accounts payable and other liabilities	49,124,157	-	-	49,124,157
Due to related parties	7,827,365	-	-	7,827,365
Lease liabilities	2,905,119	2,991,528	126,164	6,022,811
Term loans	428,320,332	451,416,035	8,992,975	888,729,342
	<u>488,176,973</u>	<u>454,407,563</u>	<u>9,119,139</u>	<u>951,703,675</u>

**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 year ended 31 December 2022.

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

	<i>31 December 2022</i>	<i>31 December 2021</i>
Capital adequacy ratio	<u>2.32</u>	<u>2.32</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

**24 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 lease, murabaha financing receivables, net.

The Company has equity investment classified at fair value through other comprehensive income and it pertains to level 3 of valuation hierarchy. The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

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

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 31 December 2022 out of which SR 34.1 million has been unwound as of 31 December 2022 including unwinding of SR 6.8 million during the year ended 31 December 2022 (31 December 2021: SR 6.9 million) (note 5.2).

Furthermore, in accordance with the PSFSP, the Company was also eligible for the deferral of its term loan instalment payment to the banks (note 22). Accordingly, the Company has recognized total modification gains of SR 24.2 million as of 31 December 2022 (31 December 2021: SR 24.2 million) out of which modification gains amounting to SR 24.2 million were unwound until 31 December 2022 including SR 0.19 million unwound during the year ended 31 December 2022 (31 December 2021: SR 3.75 million) (note 6).

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2022

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

Under Loan Guarantee Program by SAMA, the Company has received total long-term loans amounting to SR 732.2 million until 31 December 2022 (including SR 485 million received during the year ended 31 December 2022) out of which SR 106.7 million has been repaid (note 22). 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 statement of profit or loss.

Furthermore, during the year ended 31 December 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 statement of financial position (2021: 142.3 million). 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 (2021: 5 million) based on communication from SAMA and the nature and purpose of the facility. This gain has been included under Revenue, net (note 5). Further, during the year, modification gain related to the government grants, amounting to SR 4.4 million was unwound (2021: 0.8 million) and accordingly, it has been included under Finance Costs (note 6).

**26 COMPARATIVE FIGURES**

Certain prior period information has been reclassified/represented to conform with the presentation in the current period. As a result of such reclassification, there is no impact on the statement of profit or loss, statement of other comprehensive income, statement of cashflows and statement of changes in shareholders’ equity.

**27 BOARD OF DIRECTORS’ APPROVAL**

These financial statements were approved by the Board of Directors on 5 Sha’ban 1444H (corresponding to 25 February 2023G).