

**YANAL FINANCE COMPANY
(FORMERLY SAUDI ORIX LEASING COMPANY)
(A Saudi Closed Joint Stock Company)**

**Financial Statements and Independent Auditor's Report
For the year ended December 31, 2021**

YANAL FINANCE COMPANY (FORMERLY SAUDI ORIX LEASING COMPANY)
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

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Independent auditor's report to the shareholders of YANAL Finance Company) (Formerly Saudi ORIX Leasing Company), A Saudi Closed Joint Stock Company

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of YANAL Finance Company (formerly Saudi ORIX Leasing Company) (the "Company") as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standard ("IFRS"), as endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2021;
- the statement of income for the year then ended;
- the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, as 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, as endorsed in the Kingdom of Saudi Arabia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Company's financial reporting process.



Independent auditor's report to the shareholders of YANAL Finance Company) (Formerly Saudi ORIX Leasing Company), A Saudi Closed Joint Stock Company (continued)

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with International Standards on auditing, as 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 Audit Committee 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.

PricewaterhouseCoopers

Bader I. Benmohareb
License Number 471

February 21, 2022

YANAL FINANCE COMPANY (FORMERLY SAUDI ORIX LEASING COMPANY)


(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

(All amounts in Saudi Riyals unless stated otherwise)

ASSETS	Notes	As at December 31, 2021	As at December 31, 2020
Non-current assets:			
Property and equipment	4	601,654	663,645
Intangible assets	4	215,537	238,476
Equity investments designated at fair value through other comprehensive income ("FVOCI")	5	892,850	892,850
Net investment in finance leases	6	472,661,739	578,202,770
Net investment in murabaha finance	7	266,517,862	145,170,675
		<u>740,889,642</u>	<u>725,168,416</u>
Current assets:			
Current maturity of net investment in finance leases	6	467,180,771	333,706,051
Current maturity of net investment in murabaha finance	7	145,263,644	58,490,545
Advances, prepayments and other receivables	8	42,891,282	29,061,510
Term deposits	9	-	202,000,000
Cash and cash equivalents	9	75,811,144	62,523,908
		<u>731,146,841</u>	<u>685,782,014</u>
Total assets		<u>1,472,036,483</u>	<u>1,410,950,430</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	550,000,000	550,000,000
Statutory reserve	10	92,008,014	86,757,029
Retained earnings		255,324,835	215,364,948
Total equity		<u>897,332,849</u>	<u>852,121,977</u>
LIABILITIES			
Non-current liabilities:			
Long-term loans, grants and lease liability	11	174,537,997	262,339,144
Zakat and income tax	12	2,632,842	5,265,684
Employees' end of service benefits	13	20,265,652	19,607,328
		<u>197,436,491</u>	<u>287,212,156</u>
Current liabilities:			
Current maturity of long-term loans, grants and lease liability	11	277,700,369	200,169,556
Accounts payable	14	55,650,692	32,736,405
Zakat and income tax	12	13,422,107	4,581,892
Accrued expenses and other liabilities	15	30,493,975	34,128,444
		<u>377,267,143</u>	<u>271,616,297</u>
Total liabilities		<u>574,703,634</u>	<u>558,828,453</u>
TOTAL EQUITY AND LIABILITIES		<u>1,472,036,483</u>	<u>1,410,950,430</u>


The accompanying notes (1) through (28) form an integral part of these financial statements.



Chief Executive
Officer



Director



Chief Financial Officer

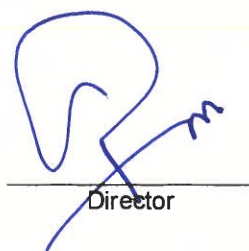
YANAL FINANCE COMPANY (FORMERLY SAUDI ORIX LEASING COMPANY)
(A Saudi Closed Joint Stock Company)
STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31,
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	2021	2020
REVENUE	16	144,765,752	110,633,923
EXPENSES			
Special commission expense	17	(25,795,655)	(13,447,646)
Expected credit losses ("ECL") on financial assets	6, 7	(6,111,334)	(17,238,024)
Modification loss	6.4, 21	(20,220,825)	(58,336,927)
Government grant income	21	22,624,589	42,505,634
Salaries and employee related expenses		(39,190,930)	(37,114,441)
General and administrative expenses	18	(9,756,420)	(12,074,540)
Depreciation and amortization	4	(306,476)	(1,859,562)
Total expenses		(78,757,051)	(97,565,506)
Income for the year before zakat and income tax		66,008,701	13,068,417
Zakat expense	12	(9,533,543)	(2,101,259)
Income tax (expense) / reversal	12	(3,965,307)	3,103,234
Income for the year after zakat and income tax		52,509,851	14,070,392
Earnings per share - basic and diluted	19	0.95	0.26

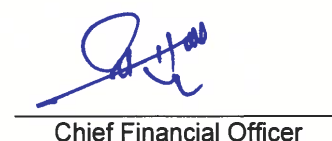
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Chief Executive
Officer



Director



Chief Financial Officer

YANAL FINANCE COMPANY (FORMERLY SAUDI ORIX LEASING COMPANY)

(A Saudi Closed Joint Stock Company)

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31,

(All amounts in Saudi Riyals unless stated otherwise)

	Note	2021	2020
Income for the year after zakat and income tax		52,509,851	14,070,392
Other comprehensive income			
<i>Item that will not be reclassified to statement of income in subsequent periods</i>			
Actuarial gains on employees' end of service benefits	13	951,021	429,552
Total comprehensive income for the year		53,460,872	14,499,944

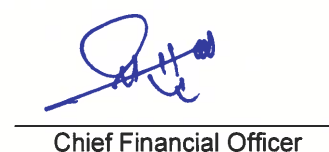
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Chief Executive
Officer



Director



Chief Financial Officer

YANAL FINANCE COMPANY (FORMERLY SAUDI ORIX LEASING COMPANY)

(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2021

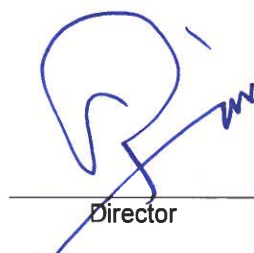
(All amounts in Saudi Riyals unless stated otherwise)

	Share capital	Statutory reserve	Retained earnings	Total equity
Balance as at December 31, 2020	550,000,000	86,757,029	215,364,948	852,121,977
Total comprehensive income:				
Income for the year after zakat and income tax	-	-	52,509,851	52,509,851
Other comprehensive income	-	-	951,021	951,021
Transfer to statutory reserve	-	5,250,985	(5,250,985)	-
Transaction with shareholders of the Company, recorded directly in shareholders' equity:				
Dividend paid (Note 27)	-	-	(8,250,000)	(8,250,000)
Balance as at December 31, 2021	550,000,000	92,008,014	255,324,835	897,332,849
Balance as at December 31, 2019	550,000,000	85,349,990	239,187,449	874,537,439
Total comprehensive income:				
Income for the year after zakat and income tax	-	-	14,070,392	14,070,392
Other comprehensive income	-	-	429,552	429,552
Transfer to statutory reserve	-	1,407,039	(1,407,039)	-
Transaction with shareholders of the Company, recorded directly in shareholders' equity:				
Dividend paid (Note 27)	-	-	(36,915,406)	(36,915,406)
Balance as at December 31, 2020	550,000,000	86,757,029	215,364,948	852,121,977

The accompanying notes (1) through (28) form an integral part of these financial statements.



Chief Executive Officer



Director



Chief Financial Officer

YANAL FINANCE COMPANY (FORMERLY SAUDI ORIX LEASING COMPANY)
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31,
(All amounts in Saudi Riyals unless stated otherwise)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income for the year before zakat and income tax		66,008,701	13,068,417
Adjustments for non-cash items:			
Depreciation of property and equipment	4	235,671	1,765,832
Amortisation of intangible assets	4	70,805	93,730
Special commission expense	17	25,795,655	13,447,646
Government grant, net		420,264	(30,210,228)
ECL allowance on financial assets	6, 7	6,111,334	17,238,024
Employees' end of service benefits	13	3,068,617	3,342,503
Gain on disposal of property and equipment		(9,213)	(4,762)
		101,701,834	18,741,162
Changes in operating assets and liabilities:			
Net investment in finance leases		(33,438,587)	(24,284,264)
Net investment in murabaha finance		(208,726,722)	(65,053,648)
Advances, prepayments and other receivables		(14,611,924)	6,423,065
Accounts payable		22,914,287	(16,416,801)
Accrued expenses and other liabilities		(28,234,711)	(11,164,254)
Employees' end of service benefits paid	13	(1,459,272)	(734,508)
Zakat and Income tax paid	12	(6,592,523)	(12,080,017)
Net cash used in operating activities		(168,447,618)	(104,569,265)
CASH FLOWS FROM INVESTING ACTIVITIES			
Redemption / (investment) of term deposits	9	202,000,000	(202,000,000)
Additions to property and equipment and intangible assets	4	(221,546)	(264,832)
Proceeds from disposal of property and equipment		9,213	4,762
Net cash generated from / (used in) investing activities		201,787,667	(202,260,070)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	11	40,000,000	20,000,000
Proceeds from profit-free Saudi Central Bank ("SAMA") deposit	11	128,122,577	374,742,269
Repayments of loans and lease liabilities		(84,489,971)	(7,870,260)
Repayment of profit-free SAMA deposit		(96,555,409)	(9,911,111)
Special commission and other bank charges paid		(1,512,852)	(675,591)
Dividends paid, net of zakat and income tax recovered		(5,617,158)	(16,772,254)
Net cash (used in) / generated from financing activities		(20,052,813)	359,513,053
Net increase in cash and cash equivalents		13,287,236	52,683,718
Cash and cash equivalents at the beginning of the year		62,523,908	9,840,190
Cash and cash equivalents at the end of the year	9	75,811,144	62,523,908

The accompanying notes (1) through (28) form an integral part of these financial statements.

Chief Executive
Officer

Director

Chief Financial
Officer

YANAL FINANCE COMPANY (FORMERLY SAUDI ORIX LEASING COMPANY)

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

(All amounts are in Saudi Riyals unless stated otherwise)

1. CORPORATE INFORMATION

YANAL Finance Company (formerly Saudi ORIX Leasing Company) (the "Company") is a Saudi Closed Joint Stock Company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under commercial registration number 1010163957 issued in Riyadh on 21 Shawal 1421H (corresponding to January 16, 2001), non-industrial license number 99 dated 27 Safar 1421H (corresponding to May 31, 2000) issued by the Ministry of Commerce and a Finance company license number 7/A Sh/201403 dated 27 /04/1435H (corresponding to February 27, 2014) issued by the Saudi Central Bank ("SAMA"), through its five branches (2020: five branches) in the Kingdom of Saudi Arabia.

On 1 Rabi Al-Awwal 1440 (corresponding to November 10, 2018), the Company received no objection certificate from SAMA to conduct commodity murabaha business in the Kingdom of Saudi Arabia.

Effective from January 1, 2021, the name of the Company was changed from Saudi ORIX Leasing Company to YANAL Finance Company.

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

YANAL Finance Company
7690 Al Madhar - As Sulimaniyah
Unit No 1
Riyadh 12621 - 2692
Kingdom of Saudi Arabia

The Company has the following branches:

<i>Branch Commercial Registration Number</i>	<i>Date</i>	<i>Location</i>
2050046083	9 Jamada Awal 1425H	Dammam
4030150057	9 Jamada Awal 1425H	Jeddah
2055013067	9 Rabi-Al-Awwal 1432H	Jubail
5855036378	9 Rabi-Al-Awwal 1432H	Khamis Mushait
4031090240	26 Rabi-Al-Thanni 1436H	Makkah AlMukarama

The objective of the Company is to provide lease financing for movable and immovable assets and murabaha financing to all economic sectors in the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

The financial statements of the Company as at and for the year ended December 31, 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Chartered and Professional Accountants ("SOCPA").

The financial statements are prepared on a going concern basis under the historical cost convention, modified to include the measurement at fair value of derivative financial instruments. However, in line with IFRS requirements, employees defined benefit liabilities are recognised at the present value of future obligations using the Projected Unit Credit Method.

YANAL FINANCE COMPANY (FORMERLY SAUDI ORIX LEASING COMPANY)

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

(All amounts are in Saudi Riyals unless stated otherwise)

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 New standards and interpretations not yet adopted

The International Accounting Standard Board ("IASB") has issued following accounting standards, amendments, which were effective from periods on or after January 1, 2022. The Company has opted not to early adopt these pronouncements and they do not have a significant impact or may not have an impact on the financial statements of the Company.

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

YANAL FINANCE COMPANY (FORMERLY SAUDI ORIX LEASING COMPANY)

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

(All amounts are in Saudi Riyals unless stated otherwise)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**3.1 New standards and interpretations not yet adopted (continued)**

Amendments to IAS 1, 'Presentation of financial statements', on	These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period.	Annual periods beginning on or after January 1, 2023
Standard, interpretation, amendments	Description	Effective date
classification of liabilities	Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.	
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	Annual periods beginning on or after January 1, 2023. However, the IASB plans to publish an exposure draft in the fourth quarter of 2021 proposing the deferral of the effective date to no earlier than January 1, 2024.
Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction	These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	Annual periods beginning on or after January 1, 2023.
IFRS 17, 'Insurance contracts', as amended in June 2020	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.	Annual periods beginning on or after January 1, 2023.
A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts	The amendment relates to insurers' transition to the new Standard only—it does not affect any other requirements in IFRS 17. IFRS 17 and IFRS 9 Financial Instruments have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time. The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.	Annual periods beginning on or after January 1, 2023.

YANAL FINANCE COMPANY (FORMERLY SAUDI ORIX LEASING COMPANY)

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

(All amounts are in Saudi Riyals unless stated otherwise)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**3.2 Significant accounting judgements, estimates and assumptions**

The preparation of the financial statements in conformity with IFRS, as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

In the process of applying the Company's accounting policies, management has made estimates and judgments which are significant to the financial statements in relation to ECL on the financial assets (Note 3.8(d)).

The principal accounting policies adopted in the preparation of these financial statements, which are consistently applied, are set out below:

3.3 Property and equipment and intangible assets

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property and equipment is capitalised and the asset so replaced is retired from use. All other repairs and maintenance expenditure are charged to the statement of income during the period in which they are incurred.

Depreciation is charged using the straight-line method over its estimated useful life as mentioned below, after taking into account residual value.

	Years
Leasehold improvements	10
Office furniture and fixtures	5
Motor vehicles	5
Information technology equipment	4

Depreciation on additions is charged from the month the assets are available for use. No depreciation is charged in the month of disposal.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains / losses on disposal of property and equipment, if any, are taken to the statement of income in the period in which they arise.

The assets' residual values, useful lives and methods are reviewed and adjusted, if appropriate, at each statement of financial position date.

YANAL FINANCE COMPANY (FORMERLY SAUDI ORIX LEASING COMPANY)

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

(All amounts are in Saudi Riyals unless stated otherwise)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Property and equipment and intangible assets (continued)

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intangible assets comprise of computer software and licenses acquired by the Company and are measured at cost less accumulated amortization. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortization is calculated over the cost of the asset and are amortized on a straight-line basis over its estimated useful life, from the date on which it is available for use. The estimated useful life of intangible assets for the current and comparative periods is four years.

3.4 Net investment in finance leases and Murabaha finance

Finance Lease

Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. Finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Gross investment in finance leases include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases. The Company takes down payments on leases with the right to set off against the residual value of leased assets and for presentation purposes, these down payments along with prepaid lease rentals are deducted from gross investment in finance leases.

Murabaha finance

Murabaha is an Islamic form of financing wherein the Company, based on request from its customers, purchases specific commodities and sells them to the customers at a price equals to the Company's cost plus profit, payable on deferred basis in instalments.

3.5 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimates.

3.6 Assets classified as held for sale

The Company classifies a non-current asset, if any, as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised in the statement of income for any initial or subsequent write down of the non-current asset to fair value less costs to sell. Any rental income is charged to statement of income. Subsequent gains in fair value less costs to sell are recognised to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its loan exposure to interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the statement of income, except for the effective portion of cash flow hedges, which is recognised in the statement of changes in equity.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been and are expected to be highly effective throughout the financial reporting periods for which they were / are designated.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the statement of income for the period.

3.8 Financial instruments

a) Initial recognition

The Company initially recognizes financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument.

b) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income ("FVOCI");
- those to be measured subsequently at fair value through statement of income ("FVSI"); and
- those to be measured at amortised cost.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective.

Classification and subsequent measurement of debt instruments depend on:

- The Company's business model for managing the asset; and
- The contractual cash flow characteristics of the asset.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**3.8 Financial instruments (continued)****b) Classification (continued)**

Business model: The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVSI.

Solely payment of principal and profit ("SPPP"): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payment of principal and profit (the "SPPP" test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. profit (or special commission income) includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVSI.

Based on these factors, the Company classifies its debt instruments into one of the three measurement categories as described in (c) below.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Classification and subsequent measurement of the Company's equity instruments are described in (c) below.

c) Measurement

At initial recognition, the Company measures financial assets at its fair value plus or minus, in the case of a financial asset not at FVOCI, transactions costs that are directly attributable to the acquisition of the financial asset. Transactions costs of financial assets carried at FVSI are expensed in statement of income.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

c) Measurement (continued)

Subsequent measurement of debt instruments

It depends on the Company's business model for managing the assets and the cash flow characteristics of the assets. There are three measurement categories into which the Company classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and profit are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of the hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Profit from these financial assets is calculated using the effective yield method.
- Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, profit on financial instrument (revenue) and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Profit from these financial assets is included in finance income using the effective yield method.
- Fair value through statement of income ("FVSI"): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVSI. A gain or loss on a debt investment that is subsequently measured at FVSI and is not part of a hedging relationship is recognised in statement of income and presented net in the statement of income within other gains/ (losses) in the period in which it arises. Income from these financial assets is included in the finance income.

Subsequent measurement of equity instruments

The Company measures all equity investments at FVSI. The Company's management has elected to present fair value gains and losses on equity investments that are not held for trading in other comprehensive income. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Currently, the Company holds only one equity investment.

There is no subsequent reclassification of fair value gains and losses to statement of income following the de-recognition of the investment and no impairment or reversal of impairment is recognised in statement of income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on derecognition of the investment.

Dividends from such investments are recognized in statement of income as other income when the Company's right to receive payments is established unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income.

d) Impairment of financial assets

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the company in accordance with the contract and all the cash flows that the company expects to receive, discounted at the original effective interest rate used in measuring the lease receivable in accordance with IFRS 16 Leases. While calculating the cash flows expected to receive, probability of default and loss given default (i.e. the magnitude of the loss if there is a default) is considered and the related assessment is based on historical overdue data adjusted by factors that are specific to the lessees and forward-looking information which includes macro-economic factors such as Saudi Gross Domestic Product (GDP) and inflation.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

d) Impairment of financial assets (continued)

The measurement of expected credit losses reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Definition of default:

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full; or
- the borrower is past due more than 90 days on any material credit obligation to the Company.

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial asset is in default and their significance may vary over time to reflect changes in circumstances.

Measurement of the expected credit loss allowance

In the preparation of the financial statements, management has made certain additional assumptions in the measurement of Expected Credit Loss ("ECL"). Explanation of such inputs, assumptions and estimation techniques used in measuring ECL are further detailed in Note 21 to these financial statements. However, in view of the current uncertainty as explained in Note 21, any future change in the assumptions and key 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. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

Lease receivables

For investment in finance leases, "lease receivables", the Company applies the simplified approach as permitted by IFRS 9, which requires lifetime expected credit losses to be recognised from the initial recognition.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

d) Impairment of financial assets (continued)

Murabaha receivables

The financial assets of the Company are categorized as follows:

1. Performing: these represent the financial assets that have not deteriorated significantly in credit quality since initial recognition or customers that have a low risk of default and a strong capacity to meet contractual cash flows.

The Company's Murabaha receivables primarily represent corporate loans. Management believes that past due information is the most appropriate basis for assessing the increase in credit risk and based on management experience and analysis of other business, the balances which are less than or equal to 30 days past due do not result in significant increase in credit risk and are considered as performing.

The Company measures the loss allowance for performing financial assets at an amount equal to 12-month expected credit losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime. 12-month expected credit losses are the portion of expected credit losses that results from default events on the financial assets that are possible within 12 months after the reporting date.

2. Underperforming: these represent the financial assets that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss event and is presumed if the customer is more than 30 days past due in making a contractual payment / installment.

The Company measures the loss allowance for underperforming financial assets at an amount equal to lifetime expected credit losses i.e. expected credit losses that result from all possible default events over the life of the financial asset.

3. Non-performing: these represent financial assets that have objective evidence of impairment at the reporting date. A default on a financial asset is considered when the customer fails to make a contractual payment / installment within 90 days after they fall due.

The Company measures the loss allowance for non-performing financial assets at an amount equal to lifetime expected credit losses.

Measurement of Expected Credit Loss ("ECL"):

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default ("PD");
- loss given default ("LGD");
- exposure at default ("EAD").

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant change in credit risk on an ongoing basis throughout each reporting period. The impairment model was developed considering probability of default and loss given default which were derived from historical data of the Company and are adjusted to reflect the expected future outcome which includes macroeconomic factors such as inflation and gross domestic product growth rate. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its carrying amount.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**3.8 Financial instruments (continued)****d) Impairment of financial assets (continued)**

For financial assets, a credit loss is calculated as the present value (at effective profit rate) of the difference between:

- (a) The contractual cash flows that are due to the Company under the contract; and
- (b) The cash flows that the Company expects to receive.

Write-offs

Financial assets are written-off only when:

- the lease or other receivable is at least three years past due, and
- there is no reasonable expectation of recovery.

Where financial assets are written-off, the Company continues to engage enforcement activities to attempt to recover the receivables due. Where recoveries are made, after write-off, are recognised as other income in the statement of income.

e) Financial liabilities - subsequent classification and measurement

All financial liabilities are subsequently measured at amortised cost using the effective rate method or FVSI. The Company has not designated any financial liabilities at FVSI and it has no current intention to do so. The effective rate is the rate that discounts the estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

f) Derecognition of financial instruments

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income.

The Company derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in statement of income.

3.9 Employees' end of service benefits

Employee termination benefits are payable as a lump sum to all employees, under the terms and conditions of Saudi Labor Laws applicable on the Company, on termination of their employment contracts. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of the Kingdom of Saudi Arabia.

The calculation of obligation is performed using the projected unit credit method to make a reliable estimate of the ultimate cost to the Company of the benefit payable to employees. Actuarial gains or losses on re-measurement of obligation are recognized immediately in the statement of other comprehensive income.

Actuarial gains and losses represent changes in the present value of the obligation resulting from experience adjustments and the effects of changes in actuarial assumptions.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

3.11 Regular way contracts

Regular way purchases or sales of financial assets are those, the contract which requires delivery of assets within the timeframe generally established by regulation or convention in the market. All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date on which the asset is delivered to or by the Company.

3.12 Offsetting

Financial assets and liabilities are offset and are reported net in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Similarly, income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

3.13 Right of use assets and lease liability

Leases are recognised as a right-of-use asset and a corresponding liability, at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Right of use assets and lease liability (continued)

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate.

Subsequently, the lease liabilities are measured at amortised cost using the effective interest rate method. They are re-measured when there is a change in future lease payments arising from a change in rate, or if Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liabilities are re-measured in this way, a corresponding income adjustment is made to the carrying amount of the right-of-use asset, or is recorded in statement of income if the carrying amount of right-of-use asset reduced to zero.

Right-of-use assets

Right-of-use assets are initially measured at cost, comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Refundable security deposits are not included in the initial measurement of a right-of-use asset. However, the difference between the nominal amount of the refundable security deposits and its fair value at the commencement of the lease represent, an additional lease payment which is prepaid and accordingly added to the initial carrying amount of the right-of-use asset and released to the statement of income over the lease term as part of the depreciation of those assets.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In addition, the right-to-use assets is periodically reduced by impairment losses, if any, and adjusted for certain re-measurement of lease liabilities.

Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Short-term and low value leases

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of income. Short-term leases are leases with a lease term of 12 months or less.

3.14 Zakat, income tax and Value added tax ("VAT")

The Company's Saudi shareholders are subject to Zakat and the non-Saudi shareholders are subject to income tax in accordance with the regulations of the Zakat, Tax, and Customs Authority ("ZATCA"), as applicable in the Kingdom of Saudi Arabia.

Zakat

The Company is subject to Zakat in accordance with the regulations of the Zakat, Tax, and Customs Authority. Zakat expense is charged to the statement of income. Zakat is not accounted for as income tax, and as such no deferred tax is calculated relating to zakat.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**3.14 Zakat and income tax (continued)****Income tax**

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate in KSA, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the Kingdom of Saudi Arabia where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

Value added tax

The Company is subject to VAT in accordance with the regulations in the Kingdom of Saudi Arabia. Output VAT related to revenue is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of assets / services to customers or (c) the invoice date. Input VAT is recoverable to the extent of taxable supplies and upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT receivable or VAT payable is recognised in the statement of financial position on a net basis and disclosed as an asset or a liability.

Input VAT that is not recoverable is charged to the statement of income as expense.

3.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks including bank overdrafts and investments with original maturity of less than three months from the contract date.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**3.16 Functional and presentation currency**

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements are presented in Saudi Arabian Riyals ("SR") which is the Company's functional and presentation currency. All financial information presented in Saudi Arabian Riyals has been rounded to the nearest Riyal, unless otherwise mentioned.

3.17 Foreign currency translation

Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates of the respective transactions. At statement of financial position date, monetary assets and liabilities in foreign currencies are translated to Saudi Arabian Riyals at the prevailing exchange rates. Gains and losses resulting from changes in exchange rates are recognised as income or expense. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction are not retranslated at statement of financial position date.

3.18 Proposed dividend and transfer between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the statement of financial position date are considered as non-adjusting events and are recorded in the financial statements in the year in which they are approved/ transfers are made.

3.19 Revenue recognition-finance leases and murabaha finance

Finance lease and murabaha finance income are recognised using the effective rate method. The effective yield is the rate that exactly discounts the estimated future cash flows through the expected life (or where appropriate, a short period) of the financial asset or liability to its carrying amount.

Service fees charged in respect of processing and other services are recognised as income as the services are rendered.

3.20 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of special commission expense and other costs that the Company incurs in connection with the borrowing of funds.

3.21 Withholding Tax

Withholding tax is withheld from payments made to non-resident vendors for services rendered and goods purchased according to the tax law applicable in Saudi Arabia and are directly paid to the ZATCA on a monthly basis.

3.22 Accounting policy related to government grants

The Company recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Company will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of profit is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of profit is measured as the difference between the initial fair value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. Government grant is recognised in statement of income on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants is intended to compensate.

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4 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Right of use assets	Leasehold improvements	Office furniture and fixtures	Motor vehicles	Information technology equipment	Total
Cost:						
Balance as at January 1, 2021	3,294,919	1,519,257	2,277,248	401,850	5,235,590	12,728,864
Additions during the year	-	-	1,574	-	172,106	173,680
Disposals during the year	-	-	-	(50,000)	-	(50,000)
Balance as at December 31, 2021	3,294,919	1,519,257	2,278,822	351,850	5,407,696	12,852,544
Accumulated depreciation:						
Balance as at January 1, 2021	3,294,919	1,271,561	2,250,433	371,764	4,876,542	12,065,219
Charge for the year	-	66,528	10,555	9,500	149,088	235,671
Disposals for the year	-	-	-	(50,000)	-	(50,000)
Balance as at December 31, 2021	3,294,919	1,338,089	2,260,988	331,264	5,025,630	12,250,890
Net book value:						
As at December 31, 2021	-	181,168	17,834	20,586	382,066	601,654
Cost:						
Balance as at January 1, 2020	3,294,919	1,519,257	2,277,248	452,250	5,042,774	12,586,448
Additions during the year	-	-	-	-	192,816	192,816
Disposals during the year	-	-	-	(50,400)	-	(50,400)
Balance as at December 31, 2020	3,294,919	1,519,257	2,277,248	401,850	5,235,590	12,728,864
Accumulated depreciation:						
Balance as at January 1, 2020	1,797,228	1,203,352	2,223,390	403,204	4,722,613	10,349,787
Charge for the year	1,497,691	68,209	27,043	18,960	153,929	1,765,832
Disposals for the year	-	-	-	(50,400)	-	(50,400)
Balance as at December 31, 2020	3,294,919	1,271,561	2,250,433	371,764	4,876,542	12,065,219
Net book value:						
As at December 31, 2020	-	247,696	26,815	30,086	359,048	663,645

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4 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

The Company also holds computer software and licenses with a cost amounting to SR 1,680,543 (2020: SR 1,632,677) and net book value amounting to SR 215,537 (2020: SR 238,476). Amortization charge for the year amounts to SR 70,805 (2020: SR 93,730).

5 EQUITY INVESTMENTS DESIGNATED AT FVOCI

The Company made an investment amounting to SR 892,850 for 89,285 shares at SR 10 each share representing 2.3% ownership in the share capital of "Saudi Finance Leasing Contract Registry Company". 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.

Equity investment designated at fair value is classified under level 3 of the fair value hierarchy.

6. NET INVESTMENT IN FINANCE LEASES

6.1 Reconciliation between gross and net investment in finance leases are as follows:

	Notes	As at December 31, 2021	As at December 31, 2020
Lease receivables		1,281,816,785	1,275,719,150
Residual value		660,029,049	624,157,280
Gross investment in finance leases	6.2	1,941,845,834	1,899,876,430
Non-refundable security deposits		(653,009,289)	(617,105,213)
Prepaid lease rentals		(57,594,971)	(56,201,514)
Net receivables		1,231,241,574	1,226,569,703
Unearned lease finance income		(131,732,272)	(151,028,776)
Sub-total	6.2	1,099,509,302	1,075,540,927
Modification loss		(67,887,938)	(50,834,797)
Income on modified finance lease		40,127,745	13,825,982
Net investment in finance leases		1,071,749,109	1,038,532,112
Expected Credit Loss ("ECL") on investment in finance leases	6.3	(131,906,599)	(126,623,291)
		939,842,510	911,908,821
Current maturity		(467,180,771)	(333,706,051)
		472,661,739	578,202,770

6.2 The maturity of the gross investment in finance leases (i.e. minimum lease payments ("MLPs") and net investment in finance leases (i.e. present value of MLPs) is as follows:

	As at December 31, 2021		As at December 31, 2020	
	MLPs	PV of MLPs	MLPs	PV of MLPs
Not later than one year	917,636,220	582,003,289	696,451,458	447,016,130
Later than one year and less than five years	1,007,847,587	484,293,658	1,167,644,572	585,075,457
Later than five years	16,362,027	5,452,162	35,780,400	6,440,525
	1,941,845,834	1,071,749,109	1,899,876,430	1,038,532,112

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6. NET INVESTMENT IN FINANCE LEASES (continued)**6.3** The movement in the ECL of lease receivables was as follows:

	Notes	As at December 31, 2021	As at December 31, 2020
Balance at the beginning of the year		126,623,291	195,878,313
ECL for the year, net		5,504,898	16,668,287
Bad debts written-off	6.3.1	(221,590)	(85,923,309)
Balance at the end of the year	6.3.2	131,906,599	126,623,291

6.3.1 Amounts written off still subject to enforcement activity

As of December 31, 2021, the bad debt amount written off but still subject to enforcement activity amounts to SR 83.4 million (2020: SR 85.5 million).

6.3.2 Portfolio ECL analysis for investment in finance leases is as follows:

December 31, 2021	Net investment in finance lease	Expected credit losses	Expected default rates
Not yet due	762,829,541	600,013	0.00%-0.05%
1-90 days*	189,991,751	6,902,243	0.06%-1.18%
91-180 days*	23,811,088	1,547,730	1.19%-5.70%
181-365 days	-	-	5.71%-28.02%
366 days – 730 days	282,480	262,171	28.03%-100%
Above 730 days and Specific accounts**	122,594,442	122,594,442	100%
	1,099,509,302	131,906,599	

December 31, 2020	Net investment in finance lease	Expected credit losses	Expected default rates
Not yet due	913,799,394	3,143,549	0.00%-0.06%
1-90 days*	25,853,030	174,025	0.06%-1.03%
91-180 days*	149,854	3,430	1.04%-5.18%
181-365 days	407,148	187,583	5.19%-22.51%
366 days – 730 days	44,691,647	32,474,850	22.52%-100%
Above 730 days and Specific accounts**	90,639,854	90,639,854	100%
	1,075,540,927	126,623,291	

*Net investment in finance lease of SR 84.7 million (2020: SR Nil) under overdue category of 1-90 days & 91-180 days are secured by real estate collateral, while the balance is secured by title to vehicle, machinery and equipment.

** Includes ECL of SR 6.5 million below 730 days against specific accounts where net investment in finance lease is fully provided (2020: SR 31.5 million).

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6 NET INVESTMENT IN FINANCE LEASES (continued)

- 6.4** Modification loss was recognised in respect of deferral of cash flows under Deferred Payment Program announced by SAMA and Small and Medium Enterprises General Authority ("Monsha'at"). Against the deferral, the Company received profit free deposits from SAMA and loan moratorium from Monsha'at. Government grant benefit was recognized in the financial statements as a difference in the book value and present value of repayments as disclosed in Note 21 to the financial statements.

During 2021, SAMA announced extension to defer repayments against finance lease and murabaha contracts for all MSMEs for the period April 1 to June 30, 2021. Later, SAMA announced to extend the deferral twice for the periods July 1, 2021 to September 30, 2021 and from October 1, 2021, to December 31, 2021 for MSMEs that continue to be affected by the COVID-19 precautionary measures. The accounting impact of these changes in terms of the finance lease and murabaha contracts has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in the Company recognising day 1 modification losses of SR 17.0 million and SR 3.2 million on finance lease and murabaha contracts, respectively, during the year ended December 31, 2021

6.5 Generating the term structure of Probability of Default (PD)

Loss rates are calculated using a 'flowrate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. PD term structures are based on the default probability calculated on forward flow rates, average of past thirty-six months, adjusted by the outlook of the economy.

6.6 Sensitivity Analysis

Assuming all other factors remain constant, the sensitivity analysis of the expected credit loss allowance of finance lease as on December 31, 2021 and 2020, is as follows:

	Increase in ECL as on December 31, 2021	Increase in ECL as on December 31, 2020
Use of maximum of forward flow rates instead of average flow rates	11,374,316	8,670,511
Increase in economic factor by 10%	424,785	3,218,824
Increase in loss given default by 10%	48,303	770,397

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7 NET INVESTMENT IN MURABAHA FINANCE**7.1** Reconciliation between murabaha finance receivables and net murabaha finance is as follows:

	Notes	As at December 31, 2021	As at December 31, 2020
Murabaha finance receivables	7.1.1	470,145,178	240,141,135
Unearned murabaha finance income		(52,909,149)	(30,412,585)
Sub-total		417,236,029	209,728,550
Modification loss		(10,669,814)	(7,502,130)
Income on modified murabaha finance		6,347,634	2,065,951
Net investment in murabaha finance		412,913,849	204,292,371
ECL on investment in Murabaha finance	7.2	(1,132,343)	(631,151)
		411,781,506	203,661,220
Current maturity		(145,263,644)	(58,490,545)
		266,517,862	145,170,675

7.1.1 The Company started offering finance against real estate mortgage toward the end of year 2018 which is a non-revolving short / medium term financing facility, with periodic repayments generally spanned over 12 to 48-months. The product is well acknowledged to suit the large spectrum of liquidity needs for short / medium term, arising from cash flow mismatches or unforeseen delays in realizations, or to some extent small capex requirements.

7.2 The movement in the ECL on Murabaha finance receivables was as follows:

	As at December 31, 2021	As at December 31, 2020
Balance at the beginning of the year	631,151	61,414
ECL for the year, net	606,436	569,737
Bad debts written-off	(105,244)	-
Balance at the end of the year	1,132,343	631,151

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7 NET INVESTMENT IN MURABAHA FINANCE (continued)**7.3** Stage wise analysis of murabaha finance receivables and ECL is as follow:

	Performing	Under- performing	Non- performing	Total
	(Stage 1)	(Stage 2)	(Stage 3)	
December 31, 2021				
Net investment in murabaha finance	415,929,592	-	1,306,437	417,236,029
Expected credit losses	(565,961)	-	(566,382)	(1,132,343)
Net receivables	415,363,631	-	740,055	416,103,686
December 31, 2020				
Net investment in murabaha finance	208,760,781	-	967,769	209,728,550
Expected credit losses	(345,630)	-	(285,521)	(631,151)
Net receivables	208,415,151	-	682,248	209,097,399

7.4 Modification loss was recognised, and netted off against government grant, in these financial statements. (Refer Note 6.4 for details).

7.5 Generating the term structure of Probability of Default (PD)

Loss rates are calculated using a 'flowrate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. PD term structures are based on the default probability calculated on forward flow rates, average of past thirty-six months, adjusted by the outlook of the economy.

7.6 Sensitivity Analysis

Assuming all other factors remain constant, the sensitivity analysis of the expected credit loss allowance on murabaha finance as on December 31, 2021 and 2020 is as follows:

	Increase in ECL as on December 31, 2021	Increase in ECL as on December 31, 2020
Use of maximum of forward flow rates instead of average flow rates	794,246	493,383
Increase in economic factor by 10%	158,688	113,168
Increase in loss given default by 10%	48,526	24,198

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8 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	As at December 31, 2021	As at December 31, 2020
Advance to suppliers	20,558,942	7,886,190
Receivable from Saudi shareholders for prior period		
Zakat settlement	7,898,525	10,531,367
Deferred Value Added Tax ("VAT")	4,259,295	1,805,943
Prepaid expenses	3,187,333	2,789,431
Government grant - receivable from SAMA	2,550,001	-
Loans and advances to staff	1,840,416	1,877,522
VAT refund	-	983,812
Other	2,596,770	3,187,245
	42,891,282	29,061,510

9 CASH AND CASH EQUIVALENTS

	As at December 31, 2021	As at December 31, 2020
Cash at banks	30,800,581	13,511,770
Cash in hand	10,563	12,138
Term deposits of less than three months maturity	45,000,000	49,000,000
Cash and cash equivalents at the end of the year	75,811,144	62,523,908

TERM DEPOSITS

Term deposits of more than three months maturity	9.1	-	202,000,000
		-	202,000,000

9.1 These term deposits are held with local banks with original maturities ranging from 91 to 180 days at contract date.

10 SHARE CAPITAL AND STATUTORY RESERVE

As at December 31, 2021 and 2020, the authorised, issued and fully paid-up share capital of the Company was SR 550 million divided into 55 million shares (2020: 55 million shares) with a nominal value of SR 10 each.

The pattern of shareholding as of December 31, is as follows:

Shareholders	As at December 31, 2021	As at December 31, 2020
The Saudi Investment Bank ("SAIB")	209,000,000	209,000,000
Trade Development & Investment Company	176,000,000	176,000,000
ORIX Corporation – Japan	151,250,000	151,250,000
OLP Financial Services Pakistan Limited - Pakistan	13,750,000	13,750,000
	550,000,000	550,000,000

10.1 The portion of Saudi to non-Saudi shareholders is 70% to 30% (2020: 70% to 30%) as of the reporting date.

10.2 As required by the Regulations for Companies and the Company's By-laws, 10% of the net income after Zakat and income tax for the year is transferred to a statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% threshold of the share capital. The reserve is not available for distribution.

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11 LONG-TERM LOANS, GRANTS AND LEASE LIABILITY

	Notes	As at December 31, 2021	As at December 31, 2020
Long-term loans	11.1	82,561,842	126,242,438
Profit-free deposits payable to SAMA	21	396,398,326	364,831,158
		478,960,168	491,073,596
Government Grant on SAMA and Monsha'at loan	11.2, 21	(63,865,821)	(42,505,634)
Special commission expense on Grant		37,200,298	12,295,406
		(26,665,523)	(30,210,228)
Accrued special commission expense		-	694,724
Total loans and deposits, net of grant	11.3, 11.4	452,294,645	461,558,092
Lease liability		-	1,079,167
		452,294,645	462,637,259
Less: unamortised fee		(56,279)	(128,559)
		452,238,366	462,508,700
Less: current maturity		(277,700,369)	(200,169,556)
Non-current portion for long-term loans and deposits		174,537,997	262,339,144

11.1 Long term loans were obtained from Social Development Bank ("SDB") in relation to Small and Medium Enterprises General Authority ("Monsha'at") Program for financing of small and medium enterprises, which are payable by January 2024.

11.2 During the year, the Company has received SR 114.3 million of profit-free deposit from SAMA repayable by March 2023. The benefit of the subsidised funding rate has been accounted for on a systematic basis in accordance with government grant accounting requirements. This has resulted in a gain on SAMA profit-free deposit amounting to SR 9.5 million accounted for during the year ended December 31, 2021. The change in repayment terms of previous SAMA deposits has resulted in a gain of SR 10.6 million during the year ended December 31, 2021. The Company also received a SAMA profit-free deposit amounting to SR 13.8 million for SAMA's Funding for Lending Program in participation for SAMA's private sector financing support program. This has resulted in a gain on amounting to SR 1.3 million accounted for during the year ended December 31, 2021.

11.3 The Company has revolving and non-revolving loan facilities from commercial banks amounting to SR 104.3 million (2020: SR 229.3 million) which stood unutilized as at December 31, 2021 and December 31, 2020.

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11 LONG-TERM LOANS AND LEASE LIABILITIES (continued)**11.4** The schedule for movement of long-term loans and SAMA profit-free deposits is as follows:

	Long-term loans and SAMA deposits	Special commission	Total
Payable as at January 1, 2021	448,567,962	12,990,130	461,558,092
Proceeds during the year	168,122,577	-	168,122,577
Charge during the year (Note 17)	-	25,706,361	25,706,361
Government grant	(21,360,187)	-	(21,360,187)
Payments during the year	(180,236,005)	(1,496,193)	(181,732,198)
Payable as at December 31, 2021	415,094,347	37,200,298	452,294,645

	Long-term loans and SAMA deposits	Special commission	Total
Payable as at January 1, 2020	114,112,698	113,723	114,226,421
Proceeds during the year	394,742,269	-	394,742,269
Charge during the year (Note 17)	-	13,282,846	13,282,846
Government grant	(42,505,634)	-	(42,505,634)
Payments during the year	(17,781,371)	(406,439)	(18,187,810)
Payable as at December 31, 2020	448,567,962	12,990,130	461,558,092

11.5 Special commission expense includes an amount of SR 24.9 million (2020: SR 12.3 million) commission costs on SAMA profit-free deposit and deferred Monsha'at loan.**12 ZAKAT AND INCOME TAX****a) Zakat**

	As at December 31, 2021	As at December 31, 2020
<i>Movement in provision:</i>		
Balance as at January 1	9,847,576	17,999,572
Provided during the year	9,533,543	2,101,259
Payment during the year	(4,524,440)	(10,253,255)
Balance as at December 31	14,856,679	9,847,576

b) Income tax

	As at December 31, 2021	As at December 31, 2020
<i>Movement in provision:</i>		
Balance as at January 1	(698,954)	4,231,042
Provided / (Reversal) during the year	3,965,307	(3,103,234)
Payment during the year	(2,068,083)	(1,826,762)
Balance as at December 31	1,198,270	(698,954)

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12 ZAKAT AND INCOME TAX (continued)

12.1 Status of assessments

There is no change in the status of Zakat and income tax assessment since December 31, 2020.

Zakat and tax assessments have been finalized up to the years ended December 2018. Outstanding payable to ZATCA in respect of prior year settlement relating to year 2014-17 are as follows:

Due dates	As at December 31, 2021	As at December 31, 2020
December 1, 2021	-	2,632,842
December 1, 2022	2,632,842	2,632,842
December 1, 2023	2,632,842	2,632,842
Total	5,265,684	7,898,526

13 EMPLOYEES' END OF SERVICE BENEFITS

	As at December 31, 2021	As at December 31, 2020
Balance at the beginning of year	19,607,328	17,428,885
Provided during the year - service cost	2,382,361	2,732,492
Provided during the year - interest cost	686,256	610,011
	3,068,617	3,342,503
Paid during the year	(1,459,272)	(734,508)
Actuarial gains through OCI	(951,021)	(429,552)
Balance at the end of the year	20,265,652	19,607,328

13.1 Principal actuarial assumptions at the reporting date are as follows:

	As at December 31, 2021	As at December 31, 2020
Discount rate	3%	3.5%
Salary increment	2.5%	2.5%
Retirement age	60	60

13.2 Sensitivity of the actuarial assumptions

A change of 1% in discount rate and salary increment would have increased or decreased the employees' end of service benefits by SR 0.71 million and SR 0.85 million (2020: SR 0.64 million and 0.83 million), respectively.

14 ACCOUNTS PAYABLE

These represent non-interest-bearing payables against purchase of assets leased and murabaha finance contracts executed by the Company. Generally, the average credit period on purchases of assets from suppliers is one month.

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15 ACCRUED EXPENSES AND OTHER LIABILITIES

	Notes	As at December 31, 2021	As at December 31, 2020
Proposed lease related payables	15.1	8,896,784	8,809,946
Employee related payables		5,514,087	4,647,766
Charity payable		4,163,424	3,730,026
Leased assets insurance premium payable		3,402,597	5,174,139
Leased assets insurance claims to be settled		2,247,775	3,819,861
VAT payable		1,495,239	-
Legal and professional charges	15.2	1,021,667	5,497,261
Other		3,752,402	2,449,445
		30,493,975	34,128,444

15.1 These include down payments and front-end fees in respect of proposed lease contracts and other amounts received for related services of executed and unexecuted contracts.

15.2 This included a provision for vendor legal claim of SR 5 million for year ended December 2020 which was settled in 2021.

16 REVENUE

	Notes	December 31, 2021	December 31, 2020
Finance lease	16.1	101,930,067	85,974,809
Murabaha finance	16.1	30,471,790	15,406,034
		132,401,857	101,380,843
Other income	16.2	12,363,895	9,253,080
		144,765,752	110,633,923

16.1 Finance lease income is stated net of insurance cost and it includes reversal of SR 26.3 million (2020: SR 13.8 million) and SR 4.3 million (2020: SR 2 million) against modification loss on finance leases and Murabaha finance contracts, respectively.

16.2 Other income mainly includes front-end fees, other contract related fees and income earned on short-term time deposits.

17 SPECIAL COMMISSION EXPENSE

	Note	December 31, 2021	December 31, 2020
Special commission expense on:			
Long-term loans	11.5	25,642,035	13,282,846
Short-term loan		64,326	-
		25,706,361	13,282,846
Bank overdraft commission		34,537	70,121
Interest expense on right-of-use asset		-	14,704
		25,740,898	13,367,671
Amortisation of transaction costs and bank charges		54,757	79,975
		25,795,655	13,447,646

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18 GENERAL AND ADMINISTRATIVE EXPENSES

	Notes	December 31, 2021	December 31, 2020
License, legal and professional charges	18.1	2,800,123	7,639,062
Rent, office repairs and maintenance expenses, net		2,496,878	2,037,642
Communication expenses		863,572	899,375
Insurance of owned assets		266,362	272,065
Printing and stationery		235,746	230,034
Travelling and transportation		204,757	119,204
Other	18.2	2,888,982	877,158
		9,756,420	12,074,540

18.1 This includes a provision for legal claim for the year ended December 31, 2020 amounting to SR 5 million for vendor legal claim as disclosed in Note 15.2 to these financial statements.

18.2 Includes VAT and advertising expense amounting to SR 1.4 million (2020: SR 0.4 million) and SR 0.99 million (2020: SR 0.13 million) respectively.

19 BASIC AND DILUTED EARNINGS PER SHARE

The basic and diluted earnings per share is calculated by dividing the income for the year attributable to the shareholders by weighted average number of shares (55,000,000) at the end of the year.

20 CONTINGENCIES AND COMMITMENTS

	As at December 31, 2021	As at December 31, 2020
Finance lease and Murabaha contracts not yet executed	10,027,353	20,598,548
Bank guarantees issued on behalf of the Company	2,000,000	2,000,000

21 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL"), SAMA SUPPORT PROGRAMS AND INITIATIVES

The prevailing economic conditions due to COVID-19 pandemic require the Company to continue to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These primarily revolve around adjusting macroeconomic factors used by the Company in the estimation of ECL. Management's ECL assessment includes macroeconomic analysis and results in an overlays of SR 4.2 million as at December 31, 2021 to account for the impact of pandemic.

SAMA programs and initiatives launched

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME").

Under the program, the Company was required to defer repayments for a total of 21.5 months on lending and leasing facilities to eligible MSMEs. The initial deferment was announced for six months (March 2020 to September 2020) and subsequently extended five times for each quarter till December 2021. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company effected the payment reliefs for deferral by extending the tenure of the finance facilities with no additional costs to the customers. The accounting impact of changes in terms of the leasing facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement.

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21 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL"), SAMA SUPPORT PROGRAMS AND INITIATIVES (continued)

During December 2021, SAMA announced an extension of deferral program for an additional three-months for qualifying MSMEs that are still affected by the COVID-19 precautionary measures for the period January 1, 2022 to March 31, 2022. The implementation of new deferral is in the process and the modification impact is expected to be immaterial to these financial statements.

The Company has received in total SR 489.3 million as profit-free deposit in various tranches with varying maturities from SAMA for the deferral program from March 2020 to September 2021. Subsequent to 2021, the Company received SR 30.2 million profit-free deposit from SAMA against the deferral from October 2021 to December 2021. Based on the communication with SAMA, the management had determined that the deposits are primarily for the compensation of modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with accounting requirements for government grant. This resulted in recognition of grant income amounting to SR 53.2 million for the whole deferment program from March 2020 to December 2021, based on certain judgements exercised by the management in the recognition and measurement of this grant income. During the year ended December 31, 2021, SR 19.5 million (December 2020: SR 8.3 million) has been charged to the statement of income as special commission expense relating to amortization of SAMA grant.

Monsha'at – Indirect Lending Initiative (which in substance is part of the SAMA program and initiatives launched)

In line with Government's initiatives to support MSMEs during the pandemic, Monsha'at also announced a 12-month moratorium of loan instalments due from MSMEs with no extensions. The Company has effected the payment reliefs by extending the tenure of the finance facilities from March 2020 for a period of one year, with no additional costs to the customers. The accounting impact of changes in terms of the finance lease and murabaha contracts has been assessed and is treated as per the requirements of IFRS 9 as modification in terms of arrangement.

Summary of modification loss and related grant income recognised during the year ended are as follows:

	Note	December 31, 2021	December 31, 2020	Total
Modification loss	6.4	(20,220,825)	(58,336,927)	(78,557,752)
Government grant income		22,624,589	42,505,634	65,130,223
Modification loss, net of Grant		2,403,764	(15,831,293)	(13,427,529)

Summary of unwinding of modification loss and special commission expense on grant income recognised during the year ended are as follows:

	Note	December 31, 2021	December 31, 2020	Total
Unwinding of modification loss	6.4	30,583,446	15,891,933	46,475,379
Special commission expense on grant		(24,330,452)	(12,295,406)	(36,625,858)
Net impact		6,252,994	3,596,527	9,849,521

In addition to above, the Company received a profit free loan amounting to SR 13.8 million under SAMA's Funding for Lending Program resulting into a gain of SR 1.3 million (2020 – SR Nil) of which SR 0.57 million is amortized during 2021 (2020 – SR Nil).

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22 FINANCIAL RISK MANAGEMENT

Risk is inherent in the Company's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability. The Company's activities are exposed to a variety of financial risks which mainly include market risk, credit risk and liquidity risk.

22.1 Risk management structure

Board of Directors

The Board of Directors is responsible for establishing the Company's policies, including risk management framework, and to review the performance of the Company to ensure compliance with these policies.

Credit and risk management committee

The credit and risk management committee are appointed by the Board of Directors. The credit and risk management committee assist the Board in reviewing overall risks which the Company might face, evaluate and review operational and non-operational risks and decide on mitigating factors related therewith.

Audit Committee

The Audit Committee is appointed by the Board of Directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof and the reliability of the internal controls of the Company.

Internal audit

All key operational, financial and risk management processes are audited by the Internal Audit. Internal audit examines the adequacy of the relevant policies and procedures, the Company's compliance with the internal policies and regulatory guidelines. Internal audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

The risks faced by the Company and the way these risks are mitigated by management are summarized below.

22.2 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Market risk comprises of three types of risk: currency risk, special commission rate risk and other price risk.

22.2.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried in Saudi Riyal. The Company incurs currency risk on borrowing in foreign currency that is entered in a currency other than Saudi Riyal. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations as the majority of the monetary assets and liabilities are in Saudi Riyals or currencies which are pegged to the Saudi Riyal and consequently the Company does not hedge its foreign currency exposure.

The Company has no foreign currency loan at reporting date, and hence there is no currency risk related to loans at reporting date.

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22 FINANCIAL RISK MANAGEMENT (continued)

22.2 Market risk (continued)

22.2.2 Special commission rate risk

Special commission rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market special commission rates. The Company's exposure to the risk of changes in market special commission rates relates primarily to the Company's long-term debt obligations with floating special commission rates.

The Company did not have any variable rate financial instruments as of the year end subject to special commission rate risk.

22.2.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from special commission rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or it's issuer, or factors affecting all similar financial instruments traded in the market. The Company does not have any financial instruments which are subject to other price risk.

22.3 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.

Out of the total assets of SR 1,472 million (2020: SR 1,141 million), the assets which were subject to credit risk of financial assets amounted to SR 1,452 million (2020: SR 1,392 million). The management analyze the credit risk in the following categories:

	As at December 31, 2021	As at December 31, 2020
Net investment in finance leases	939,842,510	911,908,821
Net investment in Murabaha finance	411,781,506	203,661,220
Advances and other receivables	24,948,000	11,921,602
Bank balances and term deposits	75,800,581	264,511,769
	1,452,372,597	1,392,003,412

22.3.1 Net investment in finance leases and murabaha finance

The investment in finance leases and murabaha finance generally expose to significant credit risk. Therefore, the Company has established a number of procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral and personal guarantees.

The Company also follows a credit classification mechanism, primarily driven by days-delinquency as a tool to manage the quality of credit risk of the lease portfolio. Lease receivables which are overdue for more than 6 months and where future cash flows are estimated to differ, are graded into four sub-categories according to Company's internal rating system i.e. Overdue/Watch, Substandard, Doubtful and Loss.

The portfolio that is neither past due nor impaired has satisfactory history of repayment, where applicable. As at statement of financial position date, the Company has adequate collaterals to cover the overall credit risk exposure after providing ECL.

The assessment of credit risk of finance leases and murabaha finance also requires further estimations of credit risk using ECL which is derived by PD, EAD and LGD.

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22 FINANCIAL RISK MANAGEMENT (continued)**22.3 Credit risk** (continued)**22.3.1 Net investment in finance leases and murabaha finance** (continued)*Generating the term structure of PD*

Loss rates are calculated using a 'flowrate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. PD term structures are based on the default probability calculated on forward flow rates, average of past thirty-six months, adjusted by the outlook of the economy.

Significant increase in credit risk

In determining whether credit risk has increased significantly since initial recognition, the Company uses its quantitative changes in PDs, delinquency status of accounts and, where possible, relevant historical experience. Based on instalment collection history, the management believes that the significant increase in credit risk arise only when the instalment is past due for more than 60 days.

Measurement of ECL

The Company measures an ECL at counterparty level considering the EAD, PD, LGD and discount rate. PD estimates are estimates at a certain date, based on the term structures as provided above. For LGD estimates, the Company use present value of recoveries for loss accounts adjusted by the forward-looking information. EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of finance lease and murabaha finance is its gross carrying amount. For discounting the Company has used each contract's effective interest rate.

The Company's management believes that adequate provision has been made, where required to address the credit risk. Moreover, the Company in the ordinary course of providing finance lease and murabaha receivables are subject to additional personal guarantees for security to mitigate credit risk associated with finance lease and murabaha finance. For additional details, relating to finance lease and murabaha finance and related risk refer Note 3.8, Note 6 and Note 7 to these financial statements.

Concentration risk

Concentrations of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company manages its credit risk exposure through diversification of leasing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. An analysis by class of business of the Company's net investment in finance leases and murabaha finance is given below:

	As at December 31, 2021		As at December 31, 2020	
	SR	%	SR	%
Building and construction	403,967,040	26.63%	312,469,469	24.31%
Commerce (wholesale/retail trade)	320,748,172	21.15%	296,072,920	23.04%
Manufacturing	258,643,665	17.05%	225,453,309	17.54%
Electricity water & gas and health services	135,947,665	8.96%	109,699,649	8.54%
Transportation and communication	131,944,002	8.70%	96,058,447	7.47%
Finance	80,370,007	5.30%	64,510,714	5.02%
Services	72,318,979	4.77%	73,781,317	5.74%
Agriculture and fishing industry	17,575,884	1.16%	8,948,177	0.70%
Mining and quarrying	2,433,955	0.16%	-	-
Retail	134,475	0.01%	896,114	0.06%
Other borrowing sectors	92,661,487	6.11%	97,379,361	7.58%
	1,516,745,331	100%	1,285,269,477	100%

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22 FINANCIAL RISK MANAGEMENT (continued)

22.3 Credit risk (continued)

22.3.1 Net investment in finance leases and murabaha finance (continued)

Collateral held as security and other credit enhancements

The credit risks on gross amounts due in relation to the investment in finance leases and murabaha financing is mitigated by the retention of title or mortgage on leased assets. Further, the Company has net investment in finance lease and murabaha finance secured through bank guarantees and Kafala guarantees amounting to SR 43.48 million (2020: SR 50 million) and SR 50 million (2020: SR 54 million) respectively as at December 31, 2021.

22.3.2 Bank balances, term deposits and other receivables

The Company believes that it has a low credit risk on these financial assets and the loss allowance would not be material for the Company. The Bank balances are held with a bank having good credit ratings. Hence, currently the Company is not exposed to any significant credit risk. Other receivables are not significant and not exposed to significant credit risk.

22.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company will be required to pay its liabilities earlier than expected or will face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The contractual maturities of liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Company's availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained. The table below summarizes the maturity profile of the Company's liabilities based on contractual undiscounted cash flows:

	Within 3 months	4 to 12 months	2 to 5 years	No fixed maturity	Total
December 31, 2021					
Accounts payable	55,650,692	-	-	-	55,650,692
Accrued expenses and other liabilities	30,493,975	-	-	-	30,493,975
Zakat and income tax	62,619	13,359,488	2,632,842	-	16,054,949
Long-term loans and grants	10,169,251	264,555,110	204,661,036	-	479,385,397
Employees' end of service benefits	-	-	-	22,660,181	22,660,181
	96,376,537	277,914,598	207,293,878	22,660,181	604,245,194
December 31, 2020					
Accounts payable	32,736,405	-	-	-	32,736,405
Accrued expenses and other liabilities	34,128,444	-	-	-	34,128,444
Zakat and income tax	62,619	4,519,273	5,265,684	-	9,847,576
Long-term loans, grants and lease liabilities	29,349,688	191,526,854	273,061,036	-	493,937,578
Employees' end of service benefits	-	-	-	22,357,549	22,357,549
	96,277,156	196,046,127	278,326,720	22,357,549	593,007,552

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23 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value 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 fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

Valuation techniques

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial assets and financial liabilities are measured at amortized cost except for equity investment designed at FVOCI which are measured at fair value. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values. The Company equity investment designed at FVOCI falls under level 3 in the fair value hierarchy as at December 31, 2021 amounting to SR 892,850 (2020: SR 892,850).

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24 FINANCIAL INSTRUMENTS

In accordance with the requirement of IFRS 9, all financial assets and liabilities of the Company are classified and measured at amortised cost, except for equity investment designed at FVOCI which are measured at fair value, the breakdown of those were as follows:

	As at December 31, 2021	As at December 31, 2020
Financial assets – at amortized cost		
Net investment in finance leases	939,842,510	911,908,821
Net investment in murabaha finance	411,781,506	203,661,220
Advances and other receivables	39,703,949	26,272,079
Terms deposits	-	202,000,000
Cash and cash equivalents	75,811,144	62,523,908
Financial assets – at fair value		
Equity investments designated at FVOCI	892,850	892,850
Financial liabilities – at amortized cost		
Long term loans and lease liabilities	452,238,366	462,508,700
Accounts payable	55,650,692	32,736,405
Accrued expenses and other liabilities	30,493,975	34,128,444

25 CAPITAL RISK MANAGEMENT

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain optimal capital structure to reduce the cost of capital. The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to its shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2021 and 2020. At statement of financial position date, gearing ratio analysis was as follows:

	As at December 31, 2021	As at December 31, 2020
Equity	897,332,849	852,121,977
Profit bearing debt	79,432,680	118,292,152
Total capital structure	976,765,529	970,414,129
Gearing ratio	8.13%	12.19%

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26 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Company transacts business with related parties, which are related to its shareholders. The Company is provided technical assistance from ORIX Corporation, Japan and OLP Financial Services Pakistan Limited at no cost under an arrangement. Significant related party transactions and balances are as follows:

Transactions:	As at December 31, 2021	As at December 31, 2020
The Saudi Investment Bank - shareholder		
Dividend paid – net of zakat and tax	1,774,831	3,368,035
Special commission and other bank charges paid	83,324	94,288
Rent and premises related payment	1,762,500	-
Lease participation – payments*	-	1,221,538
Lease participation – management fee and others - received*	-	91,522
Trade Development & Investment Company, KSA - shareholder		
Dividend paid – net of zakat	1,367,327	-
ORIX Corporation, Japan – shareholder		
Dividend paid – net of tax	2,268,750	12,214,401
OLP Financial Services Pakistan Limited - shareholder		
Dividend paid – net of tax	206,250	1,189,818
The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company, KSA- affiliate		
Premium for insurance and other related payments-net	9,608,604	8,848,640
Amlak International for Real Estate Finance Company, KSA – affiliate		
Rent and premises related income on subletting to an affiliate	-	132,653
Key Management Personnel		
Salaries and other short-term employee benefits	9,322,124	8,876,852
End of service benefits	556,281	620,284
Directors' meeting attendance fee	900,000	900,000

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26 RELATED PARTY TRANSACTIONS (continued)

Balances:	As at December 31, 2021	As at December 31, 2020
The Saudi Investment Bank- shareholder		
Current accounts	19,253,692	11,971,946
Advance against auto lease agreement	21,620	-
Prior period zakat settlement receivable	4,080,506	5,440,676
Lease participation payable	534,783	-
Lease participation receivable	23,977	-
Trade Development & Investment Company - shareholder		
Prior period zakat settlement receivable	3,818,019	5,090,691
The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company, KSA- affiliate		
Advance / prepaid against insurance premium, net	4,254,522	3,866,283
Key Management Personnel		
Employees' end of service benefits	3,538,721	2,657,002
Loans to key management of the Company	527,899	281,273
Directors' meeting attendance fee payable	900,000	900,000

* The Company has certain lease transactions, in which the related party has a non-recourse participation. The Company charges a fee for administration of the portfolio. The value of such portfolio was SR 3.5 million as at December 31, 2021 (2020: SR 4 million).

27 DIVIDENDS

The Board of Directors proposed an annual dividend of SR 0.15 per share (2019: SR 0.671 per share) for the year ended December 31, 2020 amounting to SR 8.25 million (2019: SR 36.9 million). The shareholders approved the distribution at the General Assembly Meeting, which was held in June 2021.

28 BOARD OF DIRECTORS' APPROVAL

These financial statements were approved and authorised for issue by the Board of Directors on February 16, 2022 (corresponding to Rajab 15, 1443H).