ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

Head office: Moon Tower – 8 Floor
P.O. Box 8736, Riyadh 11492
Tel.: +966 11 278 0608
Fax : +966 11 278 2883

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

Riyadh, Kingdom of Saudi Arabia

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Alraedah Finance Company** (Saudi Closed Joint Stock Company) ("the Company"), which comprise the statement of financial position as at 31 December 2021 and the statement of profit or loss and other comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Responsibilities of the Management and Those Charged with Governance for the Financial Statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA and the Regulations for Companies and the Company's By-Laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Company's financial reporting process.

Dr. Mohamed Al-Amri & Co.
الدكتور محمد العمري وشركاه
Head office: Moon Tower – 8 Floor
P.O. Box 8736, Riyadh 11492
Tel.: +966 11 278 0608
Fax : +966 11 278 2883

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs that are endorsed in Kingdom of Saudi Arabia will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

For Dr. Mohamed Al-Amri & Co.

Gihad Al-Amri
Certified Public Accountant
Registration No. 362

Riyadh, on: 30 Rajab 1443(H)
Corresponding to: 3 March 2022(G)

د. محمد العمري وشركاه - محاسبون قانونيون
س.ت : ١٠١٠٤٢٣٩٨٢
Riyadh
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

ALRAEDAH FINANCE COMPANY

(A Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	**31 December 2021 SR**	31 December 2020 SR
OPERATING INCOME			
Special commission income from Murabaha receivables		**78,293,685**	40,682,820
Finance charges		**(26,391,704)**	(11,841,646)
		51,901,981	28,841,174
Modification gains on borrowings, grant income and loss on restructuring of Murabaha receivables, net	6	**9,971,306**	3,321,429
Application fees and other income		**10,632,569**	2,362,770
TOTAL OPERATING INCOME, NET		**72,505,856**	34,525,373
OPERATING EXPENSES			
General and administrative expenses	7	**(24,865,889)**	(18,906,562)
Selling and marketing expenses	8	**(10,330,773)**	(5,167,627)
Depreciation and amortisation		**(3,302,741)**	(2,016,257)
Impairment loss on Murabaha receivables	14(b)	**(1,750,760)**	(30,251,890)
		32,255,693	(21,816,963)
Income from investments held at fair value through other comprehensive income		**1,272,695**	973,416
Gain on sale of investments held at FVOCI		**2,386,228**	-
PROFIT / (LOSS) BEFORE ZAKAT		**35,914,616**	(20,843,547)
Zakat expense	9	**(4,457,430)**	(732,037)
PROFIT / (LOSS) FOR THE YEAR		**31,457,186**	(21,575,584)
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Items that may be reclassified to profit or loss in subsequent periods:			
Fair value gain on investments held at fair value through other comprehensive income (“FVOCI”)		**1,156,826**	1,453,303
Gain on sale of investments held at FVOCI		**(2,386,228)**	-
Total items that may be reclassified to profit or loss in subsequent periods		**(1,229,402)**	1,453,303
Items that will not be reclassified to profit or loss in subsequent periods:			
Re-measurement gain / (loss) of employees’ terminal benefits	20	**276,927**	(420,689)
Total items that will not be reclassified to profit or loss in subsequent periods		**276,927**	(420,689)
TOTAL OTHER COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(952,475)**	1,032,614
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**30,504,711**	(20,542,970)

The attached notes 1 to 28 form part of these financial statements.

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	**31 December 2021 SR**	31 December 2020 SR
ASSETS			
Cash and cash equivalents	13	**36,724,912**	124,118,061
Receivable from SAMA	25	**6,239,210**	-
Murabaha receivables	14(a)	**568,743,902**	328,007,814
Prepayments and other assets	15	**16,679,543**	49,838,528
Investments held at fair value through other comprehensive income (“FVOCI”)	16	**4,801,361**	34,572,424
Right-of-use asset	10	**6,622,946**	1,763,861
Property and equipment	11	**1,138,920**	600,611
Intangible assets	12	**1,212,592**	1,016,824
TOTAL ASSETS		**642,163,386**	539,918,123
LIABILITIES AND SHAREHOLDERS’ EQUITY			
LIABILITIES			
Accounts payable and accruals	17	**32,266,998**	25,687,055
Payables to SAMA	25	**210,881,152**	208,461,963
Zakat payable	9	**4,372,991**	853,361
Lease liability	18	**7,398,546**	909,297
Borrowings	19	**199,029,439**	146,226,993
Employees' terminal benefits	20	**2,002,373**	2,072,278
TOTAL LIABILITIES		**455,951,499**	384,210,947
SHAREHOLDERS’ EQUITY			
Share capital	21	**150,000,000**	150,000,000
Statutory reserve		**5,389,538**	2,243,819
Fair value reserve – FVOCI		**223,901**	1,453,303
Reserve on re-measurement of employees’ terminal benefits		**(143,762)**	(420,689)
Retained earnings		**30,742,210**	2,430,743
TOTAL SHAREHOLDERS’ EQUITY		**186,211,887**	155,707,176
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY		**642,163,386**	539,918,123

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

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

	Share capital SR	Statutory reserve SR	Retained earnings SR	Fair value reserve - FVOCI SR	Reserve on re-measurement of employees' terminal benefits SR	Total SR
Balance as at 1 January 2020	150,000,000	2,243,819	24,006,327	-	-	176,250,146
Loss for the year	-	-	(21,575,584)	-	-	(21,575,584)
Other comprehensive income for the year	-	-	-	1,453,303	(420,689)	1,032,614
Total comprehensive loss for the year	-	-	(21,575,584)	1,453,303	(420,689)	(20,542,970)
Balance as at 31 December 2020	150,000,000	2,243,819	2,430,743	1,453,303	(420,689)	155,707,176
Profit for the year	**-**	**-**	**31,457,186**	**-**	**-**	**31,457,186**
Other comprehensive loss for the year	**-**	**-**	**-**	**(1,229,402)**	**276,927**	**(952,475)**
Total comprehensive income for the year	**-**	**-**	**31,457,186**	**(1,229,402)**	**276,927**	**30,504,711**
Transfer to statutory reserve	**-**	**3,145,719**	**(3,145,719)**	**-**	**-**	**-**
Balance as at 31 December 2021	**150,000,000**	**5,389,538**	**30,742,210**	**223,901**	**(143,762)**	**186,211,887**

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	31 December 2021 SR	31 December 2020 SR
CASH FLOW FROM OPERATING ACTIVITIES			
Profit / (loss) before zakat		**35,914,616**	(20,843,547)
Adjustments for:			
Government grant income		**(20,359,095)**	(26,811,765)
Modification gain on restructuring of borrowings	6	**-**	(6,044,367)
Finance cost		**25,885,967**	11,172,489
Impairment loss on Murabaha receivables	14(b)	**1,750,760**	30,251,890
Income from investments held at FVOCI	16	**(1,272,695)**	(973,416)
Gain on sale of investment held at FVOCI	16	**(2,386,228)**	-
Depreciation on right-of-use asset	10	**1,972,882**	1,007,922
Depreciation on property and equipment	11	**601,130**	344,069
Amortisation of intangible assets	12	**728,729**	664,266
Provision for employees' terminal benefits	20	**646,478**	697,414
Finance charge on lease	18	**484,119**	154,797
Operating cash flows before working capital adjustments		**43,966,663**	(10,380,248)
Working capital adjustments:			
Murabaha receivables		**(242,486,848)**	(82,843,764)
Prepayments and other assets		**33,158,985**	(42,970,800)
Restricted cash deposits		**-**	1,237,503
Accounts payable and accruals		**6,579,943**	7,848,863
Cash used in operating activities		**(158,781,257)**	(127,108,446)
Employees' terminal benefits paid		**(439,456)**	(112,880)
Zakat paid	9	**(937,800)**	(1,327,565)
Net cash used in operating activities		**(160,158,513)**	(128,548,891)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of investments held at FVOCI	16	**-**	(31,743,661)
Return received on investments held at FVOCI	16	**1,123,693**	490,803
Proceeds from sale of investments held at FVOCI	16	**31,076,891**	-
Purchase of property and equipment	11	**(1,139,439)**	(640,174)
Purchase of intangible assets	12	**(924,497)**	(820,569)
Net cash generated from / (used in) investing activities		**30,136,648**	(32,713,601)
CASH FLOW FROM FINANCING ACTIVITIES			
Cash received from SAMA	25	**139,180,656**	247,051,560
Repayments to SAMA	25	**(140,941,835)**	(24,058,177)
Proceeds from borrowings		**105,000,000**	70,000,000
Repayment of borrowings		**(59,283,187)**	(16,169,040)
Payment against lease obligations	18	**(826,837)**	(1,127,454)
Deferred grant income	17	**(500,081)**	-
Net cash generated from financing activities		**42,628,716**	275,696,889
Net (decrease) / increase in cash and cash equivalents		**(87,393,149)**	114,434,397
Cash and cash equivalents balances at the beginning of the year		**124,118,061**	9,683,664
Cash and cash equivalents at the end of the year	13	**36,724,912**	124,118,061

1 CORPORATE INFORMATION

Alraedah Finance Company (the "Company") is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration numbered 1010314982 issued in Riyadh on 21 Ramadan 1432H (corresponding to 21 August 2011).

The Company has one branch in Dammam under commercial registration numbered 2050150330 dated 20 Rabi ul Awal 1443H (corresponding to 26 October 2021). Whereas the branch in Buriydah under commercial registration numbered 1131056928 dated 24 Shaban 1437 H (corresponding to 31 May 2016) was closed in 2021.

The Company is engaged in providing finance lease, finance for small and medium entities in the form of Ijara and Murabaha, and consumer finance in accordance with the approval of Saudi Arabian Monetary Authority ("SAMA") numbered 43/ASH/201602 issued on 30 Rabi Thani 1437H (corresponding to 9 February 2016).

The address of the Company's registered office is Alraedah Finance Company, Olaya Towers, Tower B, 3rd Floor, Olaya Street, P.O. Box 86875, Riyadh, 11632, Kingdom of Saudi Arabia.

2 BASIS OF PREPARATION

The financial statements of the Company as at and for the year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants (collectively referred to as "IFRSs as endorsed in KSA").

The financial statements have been prepared on a historical cost basis following the accrual basis of accounting, except for investments held at fair value through other comprehensive income (FVOCI) which have been carried at fair value and employees' terminal benefits which have been measured at the present value of future obligations using Projected Unit Credit Method.

These financial statements have been presented in Saudi Riyals ("SR"), which is the functional currency of the Company.

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

3 APPLICATION OF NEW AND REVISED STANDARDS

3.1 New standards or amendments

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 but they had no material impact on these financial statements. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Company has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

3.2 Standards issued but not yet effective

Standards	Title	Effective date
IFRS 3	Business Combinations-Amendments updating a reference to the Conceptual Framework	1 January 2022
IAS 37	Provisions, Contingent Liabilities and Contingent Assets- Amendments regarding the costs to include when assessing whether a contract is onerous	1 January 2022
IAS 16	Property, Plant and Equipment - Amendments prohibiting 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	1 January 2022
IFRS 1, IFRS 9, IFRS 16 and IFRS 41	Annual improvements to IFRS standards 2018-2020	1 January 2022
IAS 1 and IFRS practice statement 2	Disclosure of Accounting policies	1 January 2023
IAS 8	Defination of Accounting Estimate	1 January 2023
IAS 12	Deferred Tax Related to Assets and Liabilities arising from a Single Transaction	1 January 2023

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Classification of financial assets

On initial recognition, a financial asset is classified as amortised cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”).

<u>Financial assets at amortized cost</u>

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

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

Financial assets measured at amortized cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

<u>Financial assets at FVOCI</u>

<u>Debt instruments</u>

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets at FVOCI (continued)
Debt instruments (continued)

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss.

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

Financial assets at FVTPL
All other financial assets are classified as measured at FVTPL.

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

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

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

Assessment of whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

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

Classification of financial liabilities
Upon initial recognition, the Company classifies its financial liabilities, as measured at amortised cost or as at fair value through profit or loss.

Financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through profit or loss or an entity has opted to measure a liability at fair value through profit or loss as per the requirements of IFRS 9.

All the financial liabilities of the Company, except derivatives being carried at fair value, are currently carried at amortised cost.

Amortized cost
Ijara and Murabaha receivables and other financial assets measured at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

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

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

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investments designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

<u>Financial liabilities</u>
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Modifications of financial assets and financial liabilities
<u>Financial assets</u>
If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as special commission income or modification gains on borrowings, grant income and loss on restructuring of Murabaha receivables, net.

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

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

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

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

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 categorizes its financial assets into following three stages in accordance with the IFRS-9 methodology:

- Stage 1 – Financial assets that are not significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on 12 months Probability of Default (PD).
- Stage 2 – Financial assets that has significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on lifetime ECL. The impairment allowance is recorded based on life time PD.
- Stage 3 – For financial assets that are impaired, the Company recognizes the impairment allowance based on life time PD.

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

The forward-looking information will include the elements such as expert judgement, macroeconomic factors (e.g., gross domestic product, inflation, average consumer prices) and economic forecasts obtained through internal and external sources.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

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

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment loss.

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as personal guarantees other non-financial assets. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. The fair value of collaterals affect the calculation of ECLs. The value of the collateral is determined at inception.

Collateral repossessed

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to inventories at the repossession date in, line with the Company's policy.

Revenue / expenses recognition

Special commission income and expenses

Special commission income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortized cost of the financial instrument.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Measurement of amortized cost and special commission income

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating special commission income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, special commission income is calculated by applying the effective special commission rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of special commission income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue / expenses recognition (continued)

Expenses
Selling and marketing expenses are those that specifically relate to salesmen and marketing expenses. All other expenses are classified as general and administrative expenses.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Assets acquired in satisfaction of claims
Assets acquired in satisfaction of claims are assets acquired in exchange for claims in order to achieve an orderly realization. The asset acquired are recognised at the lower of its fair value less costs to sell and the carrying amount of the claim net of provision for impairment at the date of exchange.

Right-of-use assets
The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses is and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities
At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease liabilities (continued)

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

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases. It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value, if any. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

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

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. Expenditure for repair and maintenance are charged to profit or loss. Improvements that increase the value or materially extend the life of the related assets are capitalised.

Intangible assets

Intangible assets are measured at cost upon initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at each financial year-end, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets comprise licenses and computer software and are amortized over a useful life of 4-5 years.

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

Impairment of non-financial assets

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

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

These calculations are corroborated by valuation multiples or other available fair value indicators.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss**.**
Impairment loss recognised against carrying value of goodwill is not reversed in subsequent periods.

Operating leases
Operating lease payments, for assets excluded in IFRS 16, are recognised as expenses in profit or loss on a straight-line method basis over the lease contract period.

Accounts payable and accruals
Accounts payable and accruals are initially measured at fair value and subsequently remeasured at amortised cost. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed or not.

Zakat
Zakat is provided on an accrual basis, and in accordance with the regulations of the Zakat, Tax and Custom Authority ("ZATCA), formerly known as General Authority of Zakat and Tax ("GAZT"). Zakat, as clarified by SOCPA dated 3 Rajab 1440H (corresponding to 1 May 2019), is considered to be a liability of the Company and are accordingly recognised in the statement of profit or loss and other comprehensive income and accrued in the statement of financial position.

Borrowings
Special commission bearing funding from financial institutions and shareholders are measured at amortised cost using the effective profit rate ("EPR") method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EPR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included in special commission expense in profit or loss.

Employees' terminal benefits
The Company operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding effect to retained earnings through other comprehensive income in the year in which they occur. Remeasurements are not reclassified to profit or loss in subsequent years.

Past service cost are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs.

Net special commission expense is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in profit or loss:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements (under general and administration expenses); and
- Net special commission expense or income (under financing facility cost and charges).

Provisions
Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

Statutory reserve
As required by Saudi Arabian Regulations for Companies and the Company's By-Laws, 10% of profit for the year should be transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital.

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Company receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

Impairment losses on financial assets
The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

- The Company's internal credit grading model, which assigns PDs to the individual grades
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as gross domestic product, inflation, average consumer prices, and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings

The Company reviews its Ijara and Murabaha receivables at each reporting date to assess whether a specific provision for credit losses should be recorded in the statement of profit or loss and other comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision. Also refer note 26.

Going concern
The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

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

The Company has the option, under some of its leases to lease the assets for additional terms of two to three years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. In doing so, it considers all relevant factors that create an economic incentive for it to exercise the renewal.

After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (i.e., a change in business strategy).

The Company included the renewal period as part of the lease term for leases of commercial space due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on operation if a replacement is not readily available.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Useful lives of property and equipment and intangible assets

The Company's management determines the estimated useful lives of its property and equipment and intangible assets for calculating depreciation and amortisation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation and amortisation charges would be adjusted where the management believes the useful lives differ from previous estimates.

Assessment of key sources of estimation uncertainty due to Covid-19

The outbreak of novel coronavirus ("COVID-19") since early 2020, its spread across mainland China and then globally caused disruptions to businesses and economic activity globally and the declaration of this pandemic by the World Health Organization necessitated the Company's management to revisit its significant judgments in applying the Company's accounting policies and the methods of computation and the key sources of estimation applied to the annual financial statements for the year ended 31 December 2021. Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, the Company's management carried out an impact assessment on the overall Company's operations and business aspects including factors like supply chain, travel restrictions, oil prices, product demand, etc. and concluded that, as of the issuance date of these financial statements, no significant changes are required to the judgements and key estimates. However, in view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

Estimate of Zakat

The Company's Zakat and tax charge on ordinary activities is the sum of the total zakat and tax charges. The calculation of the Company's zakat and total taxes charge involves a degree of estimation and judgment in respect of certain items whose treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process.

6 MODIFICATION GAINS ON BORROWINGS, GRANT INCOME AND LOSS ON RESTRUCTURING OF MURABAHA RECEIVABLES, NET

The following items are related to COVID-19 modifications related to Murabaha receivables and borrowings from a Government entity received before 2021 as well as SAMA deferred payment program.

	2021	2020
	SR	SR
Modification loss on restructuring of Murabaha receivables	**(6,586,750)**	(22,049,733)
Modification gain on restructuring of borrowings (note 19)	**-**	6,044,367
Grant income on SAMA deferred payment program (note 25)	**16,558,056**	19,326,795
	9,971,306	3,321,429

7 GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
	SR	SR
Salaries and employees' related cost	**13,054,984**	11,173,689
Professional and legal fees	**3,276,267**	4,353,838
Utilities and IT infrastructure expense	**2,720,874**	435,000
Saudi Credit Bureau (SIMAH) expense	**1,746,585**	340,000
Office expense	**907,633**	532,725
Health insurance expense	**802,748**	483,624
Rent expense	**447,557**	141,129
Sharia Board fee	**130,027**	144,000
Other expenses	**1,779,214**	1,302,557
	24,865,889	18,906,562

8 SELLING AND MARKETING EXPENSES

	2021 SR	2020 SR
Salaries and employees' related cost	**8,119,603**	4,133,629
Commission expense	**2,211,170**	1,033,998
	10,330,773	5,167,627

9 ZAKAT

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

	2021 SR	2020 SR
At the beginning of the year	**853,361**	1,448,889
Charge for the year	**4,457,430**	732,037
Payment during the year	**(937,800)**	(1,327,565)
At the end of the year	**4,372,991**	853,361

Zakat expense

The calculation of estimated Zakat expense for the year ended 31 December 2021 is as follows:

		2021 SR	2020 SR
Source of funds	***A***	**252,843,227**	262,525,450
Asset subject to Zakat	***B***	**439,186,692**	386,801,923
Total assets	***C***	**642,163,386**	539,918,123
Zakat base	***A*B/C***	**172,923,874**	188,075,458
Zakat base subject to CAP (8 times of the adjusted gross profit * 10%)		**-**	28,399,031
Zakat base subject to CAP (8 times of the annualized net profit before Zakat)		**-**	-
Estimated Zakat expense for the year at 2.5%		**4,457,430**	732,037

Status of assessments
As at 31 December 2021, the Company had filed its zakat returns with GAZT for all years up to 2020.

10 RIGHT-OF-USE ASSET

The Company leases comprise its office rent. The lease term is five years. The Company's obligations are secured by the lessor's title to the leased assets.

The net carrying amount of the right-of-use asset is stated in the statement of financial position.

The depreciation expense for right-of-use asset for the year ended 31 December 2021 was SR 1,972,882 (2020: SR 1,007,922). The Company recognised depreciation expense relating to right-of-use asset under "depreciation and amortisation".

11 PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for calculation of depreciation are as follows:

Furniture and fixtures	3 years
Office equipment	4 years
Vehicles	4 years

	2021			
	Furniture and fixtures SR	**Office equipment SR**	**Vehicles SR**	**Total SR**
Cost				
At the beginning of the year	**3,429,456**	**704,808**	**108,600**	**4,242,864**
Additions during the year	**19,198**	**290,234**	**830,007**	**1,139,439**
At the end of the year	**3,448,654**	**995,042**	**938,607**	**5,382,303**
Accumulated depreciation				
At the beginning of the year	**3,133,718**	**399,935**	**108,600**	**3,642,253**
Depreciation charge for the year	**278,638**	**147,965**	**174,527**	**601,130**
At the end of the year	**3,412,356**	**547,900**	**283,127**	**4,243,383**
Net book value				
At 31 December 2021	**36,298**	**447,142**	**655,480**	**1,138,920**

	2020			
	Furniture and fixtures SR	Office equipment SR	Vehicles SR	Total SR
Cost				
At the beginning of the year	3,089,129	404,961	108,600	3,602,690
Additions during the year	340,327	299,847	-	640,174
At the end of the year	3,429,456	704,808	108,600	4,242,864
Accumulated depreciation				
At the beginning of the year	2,871,908	322,235	104,041	3,298,184
Depreciation charge for the year	261,810	77,700	4,559	344,069
At the end of the year	3,133,718	399,935	108,600	3,642,253
Net book value				
At 31 December 2020	295,738	304,873	-	600,611

12 INTANGIBLE ASSETS

The estimated useful lives of the intangible assets for calculation of amortisation are as follows:

Licenses	4-5 years
Computer software	4 years

12 INTANGIBLE ASSETS (continued)

	2021		
	Licenses SR	**Computer software SR**	**Total SR**
Cost			
At the beginning of the year	**420,000**	**3,163,403**	**3,583,403**
Additions during the year	**751,613**	**172,884**	**924,497**
At the end of the year	**1,171,613**	**3,336,287**	**4,507,900**
Accumulated amortisation			
At the beginning of the year	**308,604**	**2,257,975**	**2,566,579**
Amortisation charge for the year	**124,510**	**604,219**	**728,729**
At the end of the year	**433,114**	**2,862,194**	**3,295,308**
Net book value			
At 31 December 2021	**738,499**	**474,093**	**1,212,592**

	2020		
	Licenses SR	Computer software SR	Total SR
Cost			
At the beginning of the year	320,000	2,442,834	2,762,834
Additions during the year	100,000	720,569	820,569
At the end of the year	420,000	3,163,403	3,583,403
Accumulated amortisation			
At the beginning of the year	268,606	1,633,707	1,902,313
Amortisation charge for the year	39,998	624,268	664,266
At the end of the year	308,604	2,257,975	2,566,579
Net book value			
At 31 December 2020	111,396	905,428	1,016,824

13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	31 December 2021 SR	31 December 2020 SR
Bank balance – current accounts	**36,597,918**	110,620,916
Brokerage account – cash	**126,994**	13,497,145
	36,724,912	124,118,061

Bank current accounts are with counterparties who have investment grade credit ratings, as rated by international rating agencies.

14 MURABAHA RECEIVABLES

Murabaha receivables have an original term period between 1 to 5 years.

14(a) Total receivables

	31 December 2021 SR	31 December 2020 SR
Gross receivables	**680,231,944**	387,687,346
Less: unearned finance income	**(102,951,842)**	(52,894,092)
	577,280,102	334,793,254
Less: allowance for expected credit loss	**(8,536,200)**	(6,785,440)
Net receivables	**568,743,902**	328,007,814

All the financing facilities provided by Company are Shariah compliant, accordingly they are unconventional in nature. It includes the balance due from related party of SR nil (note 22) (2020: SR 7,309,205).

14(b) Movement in allowance for expected credit loss

	31 December 2021 SR	31 December 2020 SR
Balance at the beginning of the year	**6,785,440**	8,805,550
Impairment charge for the year	**1,750,760**	30,251,890
Written off during the year	**-**	(32,272,000)
Balance at the end of the year	**8,536,200**	6,785,440

14(c) Expected maturity

The expected maturity of Murabaha receivables is as follows:

	31 December 2021 SR	31 December 2020 SR
Within 1 year	**388,079,227**	178,272,909
1 - 2 years	**110,581,394**	48,887,650
2 - 3 years	**43,883,080**	102,250,133
3 - 4 years	**29,547,620**	5,382,562
4 – 5 years	**5,188,781**	-
Total	**577,280,102**	334,793,254

14 MURABAHA RECEIVABLES (continued)

14(d) Aging of receivables (past due but not impaired)

As at reporting date, the ageing of past due receivables are as follows:

	< 30 days SR	31 - 60 days SR	61 – 90 days SR	91 – 120 days SR	121 – 180 days SR	181 – 360 days SR	Above360 days SR	Total SR
31 December 2021								
Receivables	**51,357,779**	**34,417,257**	**55,063,186**	**4,751,132**	**20,332,843**	**7,473,584**	**3,711,152**	**177,106,933**
31 December 2020								
Receivables	108,547,269	9,864,851	6,765,885	3,274,309	602,074	9,861,147	10,126,887	149,042,422

14(e) Economic sector risk concentration for the receivables is as follows

Sector concentration	**31 December 2021**	31 December 2020
Services	**34.96%**	38.04%
Retail business	**30.55%**	14.75%
Contracting	**17.54%**	29.90%
Industrial	**16.32%**	14.74%
Trading	**0.63%**	2.57%

14(f) Collateral

The Company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk associated with receivables. These collaterals mostly include vehicle and real estate. The collaterals are held against receivables and are managed against relevant exposures at their net realisable values. The value of collateral as at 31 December 2021 amounted to SR 375,431,573 (2020: SR 371,171,192).

15 PREPAYMENTS AND OTHER ASSETS

	31 December 2021 SR	31 December 2020 SR
Receivable from aggregators	**6,603,302**	2,366,430
Capital advances	**3,934,274**	-
Receivable on sale of collateral	**2,112,832**	20,101,501
Deferred commission	**1,928,204**	464,735
Prepaid expenses	**943,257**	763,217
Receivable from broker	**-**	17,850,000
Deposits	**-**	6,952,250
Advances to suppliers	**341,798**	471,025
Employee receivables	**104,388**	372,562
Due from a related party (note 22)	**470,714**	331,341
Others	**240,774**	165,467
	16,679,543	49,838,528

16 INVESTMENTS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The table below shows the details of the investments held by the Company at fair value through other comprehensive income:

		31 December 2021 SR	31 December 2020 SR
A	Equity instruments	**892,850**	892,850
B	Debt instruments	**3,908,511**	33,679,574
		4,801,361	34,572,424

A – Equity instruments

On 12 December 2017, the Company subscribed 2.33% shareholding in Saudi Company for Registration of Financial Leasing Contracts (“Registration Company”), registered in the Kingdom of Saudi Arabia. The Registration Company has been formed with other finance and leasing companies registered in the Kingdom of Saudi Arabia for registration of contracts relating to financial leases and amendments and registration and transfer of title deeds of the assets under the finance leases arrangements.

B – Debt instruments

The Company has classified its investment in sukuk at fair value through other comprehensive income. The table below shows the details of the investments in sukuk held by the Company:

		31 December 2021 SR	31 December 2020 SR
(I)	Dar Al Arkan	**3,908,511**	15,178,200
(II)	Arabian Centres Company	**-**	18,501,374
		3,908,511	33,679,574

(I) – Dar Al Arkan

The Company has invested in sukuk of Dar Al Arkan in November 2020 with face value of USD 4 million (SR 15 million) having coupon rate of 3.375% semi-annual and maturity in February 2025.

The movement of the investment is given as follows:

	2021 SR	2020 SR
Balance at the beginning of the year	**15,178,200**	-
Purchased during the year	**-**	14,124,000
Interest income recognised in profit or loss	**787,783**	312,246
Fair value gain recognised in other comprehensive income, net	**483,542**	741,954
Interest received	**(632,888)**	-
Disposals	**(11,908,126)**	-
Balance at the end of the year	**3,908,511**	15,178,200

(II) – Arabian Centres Company

The Company has invested in sukuk of Arabian Centres Company in November 2020 with face value of USD 4.87 million (SR 18.26 million) having coupon rate of 2.688% semi-annual and maturity in November 2024.

16 INVESTMENTS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

The movement of the investment is given as follows:

	31 December 2021 SR	31 December 2020 SR
Balance at the beginning of the year	**18,501,374**	-
Purchased during the year	**-**	17,619,660
Interest income recognised in profit or loss	**484,912**	661,170
Fair value gain recognised in other comprehensive income, net	**673,284**	711,349
Interest received	**(490,805)**	(490,805)
Disposals	**(19,168,765)**	-
Balance at the end of the year	**-**	18,501,374

17 ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2021 SR	31 December 2020 SR
Customer deposits	**16,779,913**	13,364,549
Employees related accruals	**5,122,231**	5,074,798
Unearned facility fees	**4,460,358**	3,827,903
Accrued expenses	**3,419,623**	536,307
Accrued legal and professional fees	**617,875**	153,988
Deferred grant income	**500,081**	-
Others	**1,366,917**	2,729,510
	32,266,998	25,687,055

18 LEASE LIABILITY

The weighted average lessee's incremental borrowing rate applied to the lease liability is 6.48%.

The lease payment during the year ended 31 December 2021 amounted SR 826,837 (2020: SR 1,127,454) and interest expense relating to lease liability for the year ended 31 December 2021 amounted SR 484,119 (2020: SR 154,797). The Company recognized interest expense relating to lease liability under "finance charges".

19 BORROWINGS

The table below shows the details of the borrowings obtained by the Company:

		31 December 2021 SR	31 December 2020 SR
A	Riyadh Financing Fund	**55,630,750**	-
B	Borrowings from a government entity	**143,398,689**	146,226,993
		199,029,439	146,226,993
	Current portion	**62,961,896**	40,000,821
	Non-current portion	**136,067,543**	106,226,172
		199,029,439	146,226,993

All borrowing facilities of the Company are Shariah complaint financing arrangements and are unconventional in nature.

A – Riyadh Financing Fund
During the year, the Company entered into Musharakah arrangement with Riyad Financing Fund to get finance as working capital support to the Company to finance its customers with initial present value of such loan being recorded at SR 55 million with maturity in November 2026. Riyad Financing Fund as partner to the arrangement is entitled to receive profit

19 BORROWINGS (continued)

as per Musharakah batch rate of 6.80% per annum prorate to their proportionate share (i.e., share in capital contributed). First profit distribution date is on 1 February 2022 i.e., 3 months from receipt of cash contribution and periodic profit distributions to be made at three (3) month intervals thereafter, up to maturity. First principle distribution date is on 1 February 2024 i.e., 27 months from receipt of cash contribution and periodic principle distributions to be made at three (3) month intervals thereafter, up to maturity.

B - Borrowings from a government entity

Before 2020, the Company obtained loans from a government entity amounting to SR 125 million. These are repayable in monthly instalments that commenced in January 2019, with the final instalment due in June 2023. In April 2020, the government entity deferred its payments against the above-mentioned loans for one year effective from March 2020.The accounting impact of these changes in terms of the borrowings has been assessed and are treated as per the requirements of IFRS 9. This resulted in the Company incurring a modification gain of SR 6 million during the year ended 31 December 2020 with respect to the loans received before 2020. As required by the government entity as a condition of defer payments of these borrowings, the Company is required to give one-year deferrals of repayments to the Murabaha customers eligible for this program. This resulted in the Company incurring a corresponding modification loss of SR 10.3 million during the year ended 31 December 2020.

Between June and September 2020, the Company obtained additional loans from the government entity of SR 70 million repayable in monthly instalments commencing from January 2021, with the final instalment due in January2024.

On 11 January 2021, 22 June 2021 and 19 October 2021, the Company further obtained three loans amounting to SR 15 million, 15 million and 20 million respectively repayable in monthly instalments commencing from July 2021, October 2021 and February 2022 respectively, with the final instalments due in June 2024, September 2024 and January 2025 respectively.

The above borrowings received by the Company from a government entity carry fixed special commission rates that are significantly lower than then prevailing market rates. They also carry a number of conditions, one of which is that equivalent loans should be disbursed to specific types/sectors of customers at reduced rates. The initially recorded benefit on these loans amounting to SR 4.3 million during the year ended 31 December 2021 (year ended 31 December 2020: SR 7.5 million) being the impact of “lower than market value” loans obtained by the Company was accounted for as “government grant”. Such benefits are recognised, on meeting the conditions attached to the grant on a systematic basis against the expense for which such grant is intended to compensate, in profit or loss in “special commission income from Murabaha receivables” line item. The government grant not yet recognised in profit or loss as at 31 December 2021 amounted to SR 0.5 million (31 December 2020: SR nil) and is included within “accounts payable and accruals”.

All borrowing facilities of the Company are Shariah complaint financing arrangements and are unconventional in nature.

20 EMPLOYEES' TERMINAL BENEFITS

The movement of employees’ terminal benefits for the year is as follows:

	2021 **SR**	2020 SR
Defined benefit obligation		
As at 1 January	**2,072,278**	1,067,055
Amount recognised as expense for the year	**646,478**	697,414
Re-measurement of employees’ terminal benefits recognised in other comprehensive income	**(276,927)**	420,689
Paid during the year	**(439,456)**	(112,880)
As at 31 December	**2,002,373**	2,072,278

21 SHARE CAPITAL

Share capital amounted to SR 150,000,000 as at 31 December 2021 and 31 December 2020 consisting of 15,000,000 shares of SR 10 each, which are fully paid.

22 RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of its activities, the Company transacts business with its related parties. Related parties include its shareholders and their affiliated companies, the Board of Directors, and key management personnel. Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The transactions with related parties are carried out on mutually agreed terms approved by the management of the Company.

The following are the details of major related party transactions during the year:

Compensation of key management personnel of the Company:

	2021	2020
	SR	SR
Remuneration	**980,415**	1,807,416
Termination and other long term benefits	**168,572**	300,126
Total compensation paid to key management personnel	**1,148,987**	2,107,542

Transactions with the related party related to the contracts:

Related parties	**Relationship**	**Nature**	**2021 SR**	2020 SR
Gheras Al-Khairat Company Limited	Controlled by key management personnel	Special commission income from Murabaha	**580,606**	399,256

Transactions with the related party related to the expenses:

Related parties	**Relationship**	**Nature**	**2021 SR**	2020 SR
Alraedah Investment Company	Shareholder	Expenses paid on behalf of the related party	**139,373**	331,341

Due from related party:
Below is the related party balance included in Murabaha receivables (note 14(a)):

	31 December 2021 SR	31 December 2020 SR
Gheras Al-Khairat Company Limited	**-**	7,309,205

Due from related party:
Below is the related party balance included in Prepayments and other assets (note 15):

	31 December 2021 SR	31 December 2020 SR
Alraedah Investment Company	**470,714**	331,341

23 RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and special commission rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by senior management. The most important risks and their management is summarised below.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company neither has monetary assets/liabilities, nor has undertaken any transactions in currencies other than Saudi Riyal and US Dollars during the year. As Saudi Riyal is currently pegged to the US Dollar and there were no significant transactions or exposure in currencies other than Saudi Riyal and US Dollars, management believes that the Company has no significant exposure to currency risk.

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest or commission rates. The Company's exposure to commission rate risk is minimal as financial assets including Ijara and Murabaha receivables and investments in Sukuk (classified as FVOCI) as well as financial liabilities including payables to SAMA and borrowings outstanding at 31 December 2021 are fixed rate ones.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has established a credit policy for corporate borrowers. Furthermore, all the loans are allowed for the maximum term of 60 months. As per such policy, Ijara and Murabaha receivable are not granted unless the borrower meets certain basic requirements, which are set out below:

- Corporate Know Your Customer ("KYC") validation of real operation
- Income earned through cash flows
- Collateral provided as equipment, vehicles, machineries, properties, unless exempted
- Valuation of above mentioned collateral within basic Finance to Value ("FTV") ratios

The Company monitors its receivables on a weekly basis. Furthermore, most of the receivables are backed by adequate collaterals.

In case of receivables past due for six months, the Company takes legal actions against the borrower with an aim to either collect the receivable by selling the collaterals against which the financing is provided or force the customers to regularise their overdue positions.

The table below reflects Company's maximum exposure to credit risk for the components on the statement of financial position:

	31 December 2021 SR	31 December 2020 SR
Cash and cash equivalents	**36,724,912**	124,118,061
Receivable from SAMA	**6,239,210**	-
Murabaha receivables	**568,743,902**	328,007,814
Investments held at fair value through other comprehensive income	**4,801,361**	34,572,424
Other assets	**15,736,286**	49,075,305
	632,245,671	535,773,604

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2021 and 31 December 2020:

23 RISK MANAGEMENT (continued)

a) Gross carrying value of Murabaha receivables before ECL

	12 month ECL SR	Life time ECL not credit impaired SR	Lifetime ECL credit impaired SR	Total SR
31 December 2021	**451,530,949**	**89,480,443**	**36,268,710**	**577,280,102**
31 December 2020	294,298,101	16,630,736	23,864,417	334,793,254

b) Allowance for ECL

	12 month ECL SR	Life time ECL not credit impaired SR	Lifetime ECL credit impaired SR	Total SR
31 December 2021	**2,554,118**	**1,472,184**	**4,509,898**	**8,536,200**
31 December 2020	3,085,602	894,074	2,805,764	6,785,440

Amounts arising from ECL – Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure based on approved stages of criteria.

Credit risk grades
The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

a) Generating the term structure of PD
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

The Company employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors include GDP growth, inflation and average consumer prices etc.

b) Determining whether credit risk has increased significantly
The criteria for determining whether credit risk has increased significantly include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition, which is determined under basis of Company's staging criteria.

23 RISK MANAGEMENT (continued)

Credit risk grades (continued)

Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

c) Modified financial assets
The contractual terms of receivables may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing receivable whose terms have been modified may be derecognised and the renegotiated receivable recognised as a new receivable at fair value in accordance with the Company's accounting policy. When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly is completed on the basis of the approved staging criteria.

The Company may renegotiate receivables from customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Company's policy, receivables' forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of special commission payments and amending other terms attached to the receivables.

d) Definition of 'Default'
A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The obligor is past due for 90 days or more on any credit obligations to the Company including principal instalments and interest payments.
- The Company considers that the obligor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any).

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

e) Incorporation of forward looking information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on external actual and forecast information, the Company formulates a view of the future direction of relevant economic variables. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom of Saudi Arabia and selected private sector and academic forecasters.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

23 RISK MANAGEMENT (continued)

Credit risk grades (continued)

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on models and assessed using tools tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the recoveries and costs incurred in the process to arrive at the estimates.

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 a financial asset is its gross carrying amount.

The Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of finance lease receivables.

Legal risk
Title deed of the some real estate properties are registered in the name of a board member. The enforceability of any related rights and obligations are subject to interpretation and enforceability in the relevant courts of law.

Liquidity risk
Liquidity risk is the risk that the Company will be unable to meet its net financing requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of financing to dry up immediately. Management monitors the maturity profile of the Company’s assets and liabilities to ensure that adequate liquidity is maintained

a) Analysis of financial assets and financial liabilities according to when they are expected to be recovered or settled

The table shows an analysis of financial assets and financial liabilities according to when they are expected to be recovered or settled:

31 December 2021 **Amounts in SR**	**Within 3 months**	**3-12 months**	**1-5 years**	**No fixed maturity**	**Total**
Financial assets					
Cash and cash equivalents	**36,724,912**	**-**	**-**	**-**	**36,724,912**
Receivable from SAMA	**6,239,210**	**-**	**-**	**-**	**6,239,210**
Murabaha receivables	**195,123,496**	**186,961,747**	**186,658,659**	**-**	**568,743,902**
Other assets	**9,291,236**	**-**	**-**	**-**	**9,291,236**
Investments held at FVOCI	-	-	**3,908,511**	**892,850**	**4,801,361**
Total financial assets	**247,378,854**	**186,961,747**	**190,567,170**	**892,850**	**625,800,621**

23 RISK MANAGEMENT (continued)

Financial liabilities					
Accounts payable	**1,714,528**	**4,955,176**	**10,110,209**	**-**	**16,779,913**
Payables to SAMA	**40,710,289**	**81,092,213**	**89,078,650**	**-**	**210,881,152**
Borrowings	**11,012,734**	**51,949,162**	**136,067,543**	**-**	**199,029,439**
Lease liability	**367,837**	**1,103,512**	**5,927,197**	**-**	**7,398,546**
Total financial liabilities	**53,805,388**	**139,100,063**	**241,183,599**	**-**	**434,089,050**
Total maturity gap	**193,573,466**	**47,861,684**	**(50,616,429)**	**892,850**	**191,711,571**
Cumulative maturity gap	**193,573,466**	**241,435,150**	**190,818,721**	**191,711,571**	

31 December 2020 Amounts in SR	Within 3 Months	3-12 Months	1-5 Years	No fixed maturity	Total
Financial assets					
Cash and cash equivalents	124,118,061	-	-	-	124,118,061
Murabaha receivables	94,915,247	78,954,484	154,138,083	-	328,007,814
Other assets	25,498,777	22,946,332	-	-	48,445,109
Investments held at FVOCI	-	-	33,679,574	892,850	34,572,424
Total financial assets	244,532,085	101,900,816	187,817,657	892,850	535,143,408
Financial liabilities					
Accounts payable	2,106,585	4,317,488	6,940,476	-	13,364,549
Payables to SAMA	13,215,663	89,420,194	105,826,106	-	208,461,963
Borrowings	1,745,736	38,255,086	106,226,171	-	146,226,993
Lease liability	-	868,688	40,609	-	909,297
Total financial liabilities	17,067,984	132,861,456	219,033,362	-	368,962,802
Total maturity gap	227,464,101	(30,960,640)	(31,215,705)	892,850	166,180,606
Cumulative maturity gap	227,464,101	196,503,461	165,287,756	166,180,606	

b) Analysis of undiscounted value of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date.

31 December 2021 **Amounts in SR**	**Less than 3** **months**	**3-12 months**	**1-5 years**	**Total**
Accounts payable	**1,714,528**	**4,955,176**	**10,110,209**	**16,779,913**
Payables to SAMA	**43,720,687**	**86,779,669**	**90,732,146**	**221,232,502**
Lease liability	**937,190**	**937,190**	**6,560,328**	**8,434,708**
Borrowings	**14,336,564**	**60,124,705**	**149,360,081**	**223,821,350**
Total	**60,708,969**	**152,796,740**	**256,762,764**	**470,268,473**

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2020 Amounts in SR	Less than 3 months	3-12 months	1-5 years	Total
Accounts payable	2,106,585	4,317,488	6,940,476	13,364,549
Payables to SAMA	16,512,495	96,693,522	109,787,367	222,993,384
Lease liability	-	1,127,454	-	1,127,454
Borrowings	4,315,972	44,788,549	113,971,987	163,076,508
Total	22,935,052	146,927,013	230,699,830	400,561,895

Maturity analysis of assets and liabilities

31 December 2021 **Amounts in SR**	**Within 12 Months**	**After 12 Months**	**Total**
Assets			
Cash and cash equivalents	**36,724,912**	**-**	**36,724,912**
Receivable from SAMA	**6,239,210**	**-**	**6,239,210**
Murabaha receivables	**382,085,243**	**186,658,659**	**568,743,902**
Prepayments and other assets	**16,679,543**	**-**	**16,679,543**
Investments held at FVOCI	**-**	**4,801,361**	**4,801,361**
Right-of-use asset	**1,419,201**	**5,203,745**	**6,622,946**
Property and equipment	**-**	**1,138,920**	**1,138,920**
Intangible assets	**-**	**1,212,592**	**1,212,592**
Total assets	**443,148,109**	**199,015,277**	**642,163,386**
Liabilities			
Accounts payable and accruals	**32,266,998**	**-**	**32,266,998**
Zakat payable	**4,372,991**	-	**4,372,991**
Payables to SAMA	**121,802,502**	**89,078,650**	**210,881,152**
Borrowings	**62,961,896**	**136,067,543**	**199,029,439**
Lease liability	**1,471,349**	**5,927,197**	**7,398,546**
Employees' terminal benefits	**-**	**2,002,373**	**2,002,373**
Total liabilities	**222,875,736**	**233,075,763**	**455,951,499**
Net	**220,272,373**	**(34,060,486)**	**186,211,887**

31 December 2020 Amounts in SR	Within 12 Months	After 12 Months	Total
Assets			
Cash and cash equivalents	124,118,061	-	124,118,061
Murabaha receivables	173,869,730	154,138,084	328,007,814
Prepayments and other assets	49,838,528	-	49,838,528
Investments held at FVOCI	-	34,572,424	34,572,424
Right-of-use asset	1,007,922	755,939	1,763,861
Property and equipment	-	600,611	600,611
Intangible assets	-	1,016,824	1,016,824
Total assets	348,834,241	191,083,882	539,918,123

23 RISK MANAGEMENT (continued)

Maturity analysis of assets and liabilities (continued)

Liabilities			
Accounts payable and accruals	25,687,055	-	25,687,055
Zakat payable	853,361	-	853,361
Payables to SAMA	102,635,857	105,826,106	208,461,963
Borrowings	40,000,822	106,226,171	146,226,993
Lease liability	868,688	40,609	909,297
Employees' terminal benefits	-	2,072,278	2,072,278
Total liabilities	170,045,783	214,165,164	384,210,947
Net	178,788,458	(23,081,282)	155,707,176

Capital management

The Company's policy is to maintain a strong capital base to maintain creditor and market confidence and to sustain future development of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders. The Company's objectives for managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing the services commensurately with the level of risk.

24 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction 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.

Financial instruments comprise financial asset and financial liabilities. Financial assets of the Company includes bank balances, restricted cash deposits, Ijara and Murabaha receivables, investments held at FVOCI and other receivables. Financial liabilities of the Company include borrowings, payables to SAMA and accounts payable. Except for investments held at FVOCI that are measured at fair value, carrying amounts of all other financial instruments are considered to approximate their fair values.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Out of investments carried at FVOCI, Sukuk is classified within level 1 of the fair value hierarchy and equity instruments within level 3 of the fair value hierarchy.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

There have been no transfers between various fair value hierarchy level during the current or prior year.
Management believes that the fair value of financial assets and liabilities at the reporting date approximate their carrying values.

24 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy of financial assets and liabilities

All financial assets and liabilities, except derivatives, which are carried at fair value and of insignificant amount, of the Company, are categorised as held at amortized cost, which approximate their fair value, and accordingly fair value hierarchy disclosure has not been provided.

Financial instruments by category	**31 December 2021 SR**	**31 December 2020 SR**
Financial assets – at amortized cost		
Cash and cash equivalents	**36,724,912**	124,118,061
Receivable from SAMA	**6,239,210**	-
Murabaha receivables	**568,743,902**	328,007,814
Other assets	**9,291,236**	48,445,109
	620,999,260	500,570,984
Financial assets – at fair value through other comprehensive income		
Investments at fair value through other comprehensive income ("FVOCI")	**4,801,361**	34,572,424
Financial liabilities – at amortized cost		
Accounts payable	**16,779,913**	13,364,549
Payables to SAMA	**210,881,152**	208,461,963
Borrowings	**199,029,439**	146,226,993
Lease liability	**7,398,546**	909,297
	434,089,050	368,962,802

25 SAMA PROGRAMS

SAMA programs and initiatives launched

In response to COVID-19 (refer also note 27), SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the SME sector through empowering and facilitating the financing community. The PSFSP mainly encompasses the following programs:

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

As at and during the year ended 31 December 2021, the Company has only participated in the deferred payment programs as mentioned above.

During April 2020, SAMA has issued a guidance around additional COVID-19 support measures for Micro, Small and Medium Enterprises ("MSMEs") that the finance companies will need to undertake in relation to MSMEs deferred payments program. The Company has considered the guidance issued and implemented in the year ended 31 December 2021.

Deferred payment program – March 2020

As part of the deferred payments program, the Company is required to defer payments for six months (from March 2020 to September 2020) on the eligible microfinance facilities. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company has effected the payment relief by extending the tenure of the applicable financings granted with no additional costs to be borne by the customers. The accounting impact of these changes in the terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9. This has resulted in the Company recognizing initially a day 1 modification loss of SR 5.9 million with respect to participating Murabaha facilities granted to its customers, which was recognized in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

25 SAMA PROGRAMS (continued)

Pursuant to SAMA deferred payments program, the Company under an agreement with SAMA, received a loan amounting to SR 100.8 million, as profit-free deposit. Subsequently, management identified certain differences in the calculation based on which an amount of SR 100.8 million was derived. As a result, it was determined that an amount of SR 19.6 million should be refunded to SAMA and this was re-confirmed by SAMA and paid in July 2020. The revisited net amount payable to SAMA against this loan after repayment is SR 81.2 million. The amount is repayable to SAMA over the period of 3.5 years in equal monthly instalments, with an initial grace period of 6 months. During 2021, the Company has repaid SR 27.1 million against this facility (2020: SR 4.5 million). The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted initially in a total income of SR 10.4 million, which was recognized in profit or loss immediately. The management has exercised certain judgements in the recognition and measurement of this grant income.

Deferred payment program – September 2020

In September 2020, SAMA announced to extend the SAMA deferred payments program for three months from September 2020 until December 2020. Pursuant to this program, the Company received a loan amounting to SR 73.1 million, as profit-free deposit. The amount is repayable to SAMA over the period of 1.25 years in equal monthly instalments, with an initial grace period of 4 months. During the year, the Company has repaid SR 53.6 million against this facility. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 4.2 million, which was recognized in the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognized a day 1 modification loss of SR 3 million with respect to participating Murabaha facilities granted to its customers which was recognized in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payment program – December 2020

In December 2020, SAMA announced to further extend the SAMA deferred payments program for three months from December 2020 until March 2021. Pursuant to this program, the Company received a loan amounting to SR 73.2 million, as profit-free deposit. The amount is repayable to SAMA over the period of 1.5 years in equal monthly instalments, with an initial grace period of 4 months. During the year, the Company has repaid SR 36.6 million against this facility. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 4.7 million, which was recognized in the profit or loss section of the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognized a day 1 modification loss of SR 3 million with respect to participating Murabaha facilities granted to its customers which was recognized in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payment program – March 2021

In March 2021, SAMA announced to further extend the SAMA deferred payments program for three months from April 2021 until June 2021. Pursuant to this program, the Company received a loan amounting to SR 71 million, as profit-free deposit. The amount is repayable to SAMA over the period of 1.25 years in equal monthly instalments, with an initial grace period of 4 months. During the year, the Company has repaid SR 23.7 million against this facility. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 4 million, which was recognized in the profit or loss section of the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognized a day 1 modification loss of SR 2.6 million with respect to participating Murabaha facilities granted to its customers which was recognized in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payment program – June 2021

In June 2021, SAMA announced to further extend the SAMA deferred payments program for three months from June 2021 until September 2021. Pursuant to this program, the Company received a loan amounting to SR 68.2 million, as profit-free deposit. The amount is repayable to SAMA at maturity after the period of 1.5 years. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 6.3 million, which was recognized in the profit or loss section of the statement of profit

25 SAMA PROGRAMS (continued)

or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognized a day 1 modification loss of SR 2.2 million with respect to participating Murabaha facilities granted to its customers which was recognized in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payment program – September 2021

In September 2021, SAMA announced to further extend the SAMA deferred payments program for three months from October 2021 until December 2021. Effective 1 October 2021, the Company has recorded a receivable amounting to SR 6.2 million, to the extent of benefit of the subsidized funding rate for the loan received subsequently to the year end. The received loan amount is repayable to SAMA at maturity after the period of 1.5 years from the date of receiving the loan. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 6.2 million, which was recognized in the profit or loss section of the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income. The amount of SR 64.4 million was received in January 2022.

The Company has also recognized a day 1 modification loss of SR 1.8 million with respect to participating Murabaha facilities granted to its customers which was recognized in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payment program – December 2021

In December 2021, SAMA has announced to further extend the deferral program for 7th time by allowing additional three months payment deferrals from 1 January 2022 to 31 March 2022 for eligible customers, where the Company has made assessment based on the criteria defined by SAMA to determine the customers which are still affected under this program for eligibility. The Company has determined SR 64.3 million as funding required from SAMA as per the conditions attached to this program. However, at the date of the financial statements the Company has not received any amount against this program.

26 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES

During March 2020, the World Health Organisation (“WHO”) declared the Coronavirus (“COVID-19”) outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Kingdom of Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic. The Company has evaluated the current situation through conducting stress testing scenarios on expected movements of oil prices and its impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the potential business disruption due to COVID-19 outbreak that may have on its operations and financial performance. The steps taken by management also include commencing review of credit exposure concentrations at a more granular level such as the economic sectors, regions, country, counterparty etc., collateral protection, timely review and customer credit rating actions and appropriately restructuring loans, where required. These also take into consideration the impacts of government and SAMA support relief programs.

These current events and the prevailing economic condition require the Company to revise certain inputs and assumptions used for the determination of expected credit losses (“ECL”). These would primarily revolve around either adjusting macroeconomic factors used by the Company in estimation of expected credit losses. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental, and the Company will continue to reassess its position and the related impact on a regular basis.

At this point in time, it is difficult to ascertain the specific effects the health crisis and government and SAMA support measures, such as the repayment holidays and other mitigating packages, will have. The Company has therefore concluded that it is too early for any potential credit impairment to be reflected through application of the staging criteria and focused on the macroeconomic model underpinning the Probability of Default (“PD”) and Loss Given

26 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (continued)

Default ("LGD") determinations. The Company will continue to individually assess significant corporate exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

27 SUBSEQUENT EVENTS

There are no subsequent events after the year-end until the date of approval of these financial statements, which require disclosure or adjustment in these financial statements, except as disclosed in SAMA programs (note 25) and elsewhere in these financial statements.

28 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 30 Rajab 1443H (corresponding 3 March 2022G).