SAUDI FRANSI FOR FINANCE LEASING COMPANY
(A Closed Joint Stock Company)
Financial Statements
For the year ended 31 December 2021
together with the
Independent auditor's report

SAUDI FRANSI FOR FINANCE LEASING COMPANY
(A Closed Joint Stock Company)
For the year ended 31 December 2021

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كي بي إم جي للاستشارات المهنية
واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

Independent auditor's report

To the shareholder of Saudi Fransi for Finance Leasing Company

Opinion

We have audited the financial statements of Saudi Fransi for Finance Leasing Company ("the Company"), which comprise the statement of financial position as at 31 December 2021, the statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

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 the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISA") 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 these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies, 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, the Board of Directors, are responsible for overseeing the Company's financial reporting process.

KPMG

Independent auditor's report

To the shareholder of Saudi Fransi for Finance Leasing Company (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then 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 of the Saudi Fransi for Finance Leasing Company ("the Company").

KPMG Professional Services

Dr. Abdullah Hamad Al Fozan
License no: 348

Riyadh, 3 Shaban 1443H
Corresponding to: 6 March 2022

KPMG Professional Services

SAUDI FRANSI FOR FINANCE LEASING COMPANY
(A Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2021
(SAR '000)

	Notes	**31 December 2021**	31 December 2020
ASSETS			
Cash and cash equivalents	*4*	**15,630**	7,554
Net investment in finance leases	*5*	**3,306,260**	2,507,492
Prepayments		**62,553**	69,740
Other assets	*6*	**68,400**	17,242
Investment at FVOCI	*7*	**893**	893
Positive fair value of derivatives	*8*	**4,034**	-
Intangible assets	*9*	**1,312**	248
Property, equipment and right of use assets	*10*	**4,245**	2,912
Total assets		**3,463,327**	2,606,081
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Long-term loan	*12*	**2,078,696**	1,529,245
Loan from SAMA		**16,102**	10,119
Accounts payable	*13*	**294,707**	80,627
Advance from customers		**85,785**	75,126
Due to related parties	*11.b*	**10,738**	30,951
Negative fair value of derivatives	*8*	**16,878**	42,347
Accrued expenses and other liabilities	*14*	**15,716**	18,693
Employees' end of service benefits	*15*	**8,572**	6,882
Provision for zakat	*16*	**26,380**	23,573
Total liabilities		**2,553,574**	1,817,563
Shareholder's equity			
Share capital	*17*	**500,000**	500,000
Statutory reserve	*18*	**46,717**	37,461
Other reserve		**(13,164)**	(41,842)
Retained earnings		**376,200**	292,899
Total shareholder's equity		**909,753**	788,518
Total shareholder's equity and liabilities		**3,463,327**	2,606,081

The accompanying notes (1) through (29) form an integral part of these financial statements.

for Mashhor Al Masudi
Chief Executive Officer

Ahamed Thabit Rasheed
Chief Financial Officer

SAUDI FRANSI FOR FINANCE LEASING COMPANY
(A Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2021
(SAR '000)

	Notes	**2021**	2020
Lease finance income		**144,573**	130,884
Fees income	*19*	**176,373**	207,366
Total revenue		**320,946**	338,250
Other income	*21*	**8,050**	4,372
Total operating income		**328,996**	342,622
Operating expenses			
Fees expenses	*19*	**(126,286)**	(142,263)
Salaries and employee-related expenses		**(34,891)**	(36,670)
Other expenses		**-**	(195)
Depreciation	*10*	**(929)**	(553)
Amortization	*9*	**(287)**	(254)
General and administration expenses	*20*	**(8,405)**	(8,306)
Financial charges		**(46,247)**	(49,101)
Reversal for expected credit losses, net	*5,6*	**4,578**	268
Total operating expenses		**(212,467)**	(237,074)
Net income for the year before zakat		**116,529**	105,548
Zakat	*16*	**(23,972)**	(33,356)
Net income for the year		**92,557**	72,192
Other comprehensive income/(loss):			
Items that may be reclassified to statement of income in subsequent years:			
Cash flow hedges – net change in fair value		**29,503**	(22,523)
Items that may not be reclassified to statement of income in subsequent years:			
Actuarial loss on defined benefit plans	*15*	**(825)**	(11)
Total comprehensive income for the year		**121,235**	49,658

The accompanying notes (1) through (29) form an integral part of these financial statements.

for Mashhor Al Masudi
Chief Executive Officer

Ahamed Thabit Rasheed
Chief Financial Officer

SAUDI FRANSI FOR FINANCE LEASING COMPANY
(A Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
For the year ended 31 December 2021
(SAR '000)

For the year ended 31 December 2021	**Share Capital**	**Statutory reserve**	**Other reserves**	**Retained earnings**	**Total**
Balance as at 1 January 2021	**500,000**	**37,461**	**(41,842)**	**292,899**	**788,518**
Net income for the year	-	-	-	**92,557**	**92,557**
Transfer to statutory reserve *(note 18)*	-	**9,256**	-	**(9,256)**	-
Other comprehensive income	-	-	**28,678**	-	**28,678**
Balance as at 31 December 2021	**500,000**	**46,717**	**(13,164)**	**376,200**	**909,753**

For the year ended 31 December 2020	Share Capital	Statutory reserve	Other reserves	Retained earnings	Total
Balance as at 1 January 2020	500,000	30,242	(19,308)	227,926	738,860
Net income for the year	-	-	-	72,192	72,192
Transfer to statutory reserve *(note 18)*	-	7,219	-	(7,219)	-
Other comprehensive income	-	-	(22,534)	-	(22,534)
Balance as at 31 December 2020	500,000	37,461	(41,842)	292,899	788,518

The accompanying notes (1) through (29) form an integral part of these financial statements.

for
Mashhor Al Masudi
Chief Executive Officer

Ahamed Thabit Rasheed
Chief Financial Officer

SAUDI FRANSI FOR FINANCE LEASING COMPANY
(A Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2021
(SAR '000)

	Notes	**2021**	2020
Cash flows from operating activities			
Net income for the year before zakat		**116,529**	105,548
Adjustments to reconcile net income to net cash generated from / (used in) operating activities:			
Depreciation	*10*	**929**	553
Amortization	*9*	**287**	254
Reversal for expected credit losses, net	*5*	**(4,578)**	(268)
Employees' end of service benefits		**1,544**	1,500
Financial charges		**46,247**	49,101
Gain on disposal of motor vehicle		**(11)**	-
Operating income before changes in operating assets and liabilities		**160,947**	156,688
Net (increase) / decrease in operating assets			
Net investment in finance leases		**(794,192)**	(79,058)
Other assets		**7,187**	(6,095)
Prepayments		**(51,158)**	(2,451)
Net increase / (decrease) in operating liabilities			
Accounts payable		**214,080**	34,995
Due to related parties		**(20,213)**	25,109
Advances from customers		**10,659**	10,025
Accrued expenses and other liabilities		**(2,572)**	5,451
Cash generated from / (used) in operations		**(475,262)**	144,664
Zakat and income tax paid	*16*	**(21,165)**	(18,277)
Employees' end of service benefits paid	*15*	**(679)**	(247)
Net cash generated from / (used) in operating activities		**(497,106)**	126,140
Cash flows from investing activities			
Purchase of intangibles	*9*	**(1,351)**	(291)
Purchase of property and equipment	*10*	**(2,263)**	(499)
Proceeds from sale of motor vehicle		**11**	-
Net cash used in investing activities		**(3,603)**	(790)
Cash flows from financing activities			
Drawdown of long-term loan	*12*	**930,000**	460,062
Payments of long-term loan	*12*	**(379,167)**	(555,062)
Receipt of loan from SAMA		**8,162**	10,119
Repayment of loan from SAMA		**(2,296)**	-
Financial charges paid	*12*	**(47,473)**	(52,130)
Payment of lease liabilities		**(441)**	(616)
Net cash generated from / (used) in financing activities		**508,785**	(137,627)
Net increase / (decrease) in cash and cash equivalents		**8,076**	(12,277)
Cash and cash equivalents at the beginning of the year		**7,554**	19,831
Cash and cash equivalents at the end of the year	4	**15,630**	7,554

The accompanying notes (1) through (29) form an integral part of these financial statements.

for

Mashhor Al Masudi
Chief Executive Officer

Ahamed Thabit Rasheed
Chief Financial Officer

1. THE COMPANY AND NATURE OF OPERATIONS

Saudi Fransi for Finance Leasing ("the Company") is a Closed Joint Stock Company ("CJSC") established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010320273 dated 24 Dhul Hijjah 1432H (corresponding to 21 November 2011).

As per the Saudi Central Bank ("SAMA") directive, the Company obtained a license no. 201511/ 38/أش to practice finance activities.

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

Saudi Fransi for Finance Leasing
Prince Abdulaziz Ibn Musaid Ibn Jalawi Road
P.O. Box 56006,
Riyadh 11554
Kingdom of Saudi Arabia

The objective of the Company is to provide lease financing for assets.

2. BASIS OF PREPARATION

a) *Statement of compliance*

The financial statements of the Company are prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"); and in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia.

b) *Basis of measurement*

These financial statements have been prepared on a going concern basis under the historical cost convention except for the measurement of commission rate swaps and financial assets held at fair value through other comprehensive income–equity instruments, which are carried at fair value. Furthermore, employees' end-of-service benefits are measured at the present value of future obligations using the Projected Unit Credit Method.

c) *Functional and presentation currency*

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

d) *Going concern*

These financial statements have been prepared on a going concern basis. 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.

2. BASIS OF PREPARATION (CONTINUED)

e) Critical accounting judgements, estimates, and assumptions

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

The Company has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2021 about future events that the Company believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Company. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

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

Significant areas where management have used estimates, assumption or exercised judgement are as follows:

i) Expected credit losses ("ECL")

The measurement of ECL under IFRS 9 across all categories of financial assets, including net investments in finance lease requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL 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 judgments and estimates include:

1. The selection of an estimation technique or modeling methodology, covering below key judgements and assumptions:
   a) The Company's internal credit grading model, which assigns Probability of Default ('PDs') to the individual grades;
   b) Loss given default determination ("LGD");
   c) The Company's criteria for assessing if there has been a significant increase in credit risk and thus allowances for financial assets /net investment in finance leases should be measured on a Lifetime ECL basis and the qualitative assessment;
   d) The segmentation of financial assets/net investment in finance leases their ECL is assessed on a collective basis
   e) Development of ECL models, including the various formulas; and
   f) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model.

   Detailed information about the judgments and estimates in respect of the above is set out in note 3(c).
2. The selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs.

2. BASIS OF PREPARATION (CONTINUED)

e) Critical accounting judgements, estimates, and assumptions (continued)

ii) Employee's end of service benefits- refer to note 3(*j*) and 15

iii) Fair value measurement – refer to note 3(m) and 22

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2020. Based on the adoption of amendments to the existing standards and in consideration of current economic environment, the following accounting policies are applicable effective 1 January 2021 replacing, amending or adding to the corresponding accounting policies set out in 2020 annual financial statements.

a.) New IFRS Standards, interpretations and amendments adopted by the Company

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after 1 January 2021. The management has assessed that the amendments have no significant impact on the Company's financial statements.

- Interest Rate Benchmark Reform - Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- COVID-19 - Related Rent Concessions (Amendments to IFRS 16);
- Annual Improvements to IFRS Standards 2018–2020 (Amendment to IFRS 1, IFRS 9 and IAS 41);
- Reference to Conceptual Framework (Amendments to IFRS 3);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16); and
- Onerous contracts - Cost of Fulfilling a contract (Amendments to IAS 37).

b.) Accounting standards issued but not yet effective

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Company's accounting year beginning on or after 1 January 2022 are listed below. The Company has opted not to early adopt these pronouncements.

- IFRS 17 - Insurance contracts, applicable for the period beginning on or after January 1, 2023;
- Amendments to IAS 1, Presentation of financial statements', on classification of liabilities;
- Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors, definition of accounting estimates;
- Amendments to IAS 1 Presentation of financial statements and IFRS practice statement 2 making materiality judgements, disclosure Initiative: Accounting policies;
- Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction; and
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in associates and joint ventures, sale or contribution of assets between an investor and its associate or joint venture.

The management of the Company anticipates that the application of these new standards and amendments in the future will not have significant impact on the amounts reported.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Cash and cash equivalents

Cash and cash equivalents consist of bank balances and cash in hand.

b) Net investment in finance leases

Net investment in finance lease represents leasing contracts that are receivable from customers on account of finance leases. Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees at the end of the contract are classified as finance leases. Net investment in finance leases is recorded at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

All leased vehicles are under the Company's name, and the contract signed with customer represents lease contract with irrevocable promise to transfer the ownership, where the legal title of the asset will be passed to the lessee once all lease instalments are settled. Based on the criteria as laid out in IFRS 16, these contracts meet the definition of a finance lease, even though the legal ownership of these underlying properties is not transferred as of the reporting date.

Gross investment in finance leases include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease income and for presentation purposes, is deducted from the gross investment in finance leases.

c) Expected Credit Losses ("ECL")

The Company recognizes loss allowances for ECL on financial assets and net investment in finance lease. No ECL is recognized on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the financial instruments on which credit risk has not increased significantly since their initial recognition, these loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

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

Measurement of ECL

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

- financial assets and net investment in finance leases 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);
- financial assets and net investment in finance leases that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

Restructured financial assets or net investment in finance leases

If the terms of a financial asset and net investment in finance leases 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 or net investment in finance leases 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; and

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Expected Credit Losses ("ECL") (continued)

Restructured financial assets or net investment in finance leases (continued)

- If the expected restructuring will result in the 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 yield of the existing financial asset.

Credit-impaired financial assets and net investment in finance leases

At each reporting date, the Company assesses whether financial assets carried at amortized cost and net investment in finance leases are credit-impaired. A financial asset and net investment in finance lease 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 and net investment in finance lease 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 lease by the Company on terms that the Company would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

A lease 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.

Presentation of allowance for ECL in the statement of financial position

Allowances for ECL of financial assets measured at amortised cost and net investment in finance lease are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Write-off

Investment in finance leases 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 charge for credit losses.

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral is primarily in the form of vehicle. Collateral, unless repossessed, is not recorded on the Company's statement of financial position.

However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis.

Collateral repossessed

Repossessed vehicle by the Company are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date.

d) *Financial instruments*

All financial assets and financial liabilities are initially recognized on the trade date i.e. the date which the Company becomes party to the contractual provisions of the instrument.

Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or fair value through profit or loss (FVTPL).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial instruments (continued)

Financial asset at amortised cost
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 asset at FVOCI

Debt instrument: 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.

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

Equity instrument: 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 instrument-by- instrument basis.

Financial asset 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 when the Company changes its business model for managing financial assets.

Business model assessment
The Company assess 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 profit revenue, maintaining a particular profit 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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial instruments (continued)

- 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.

Assessments 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 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 profit rates.

Classification of financial liabilities
The Company classifies its financial liabilities, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium to issue the funds, and other cost that are integral part of the effective profit rate.

Derecognition

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial instruments (continued)

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. Financial assets originated by the Company and subsequently disposed-off to third parties are derecognised when the rights to receive the contractual cash flows and substantially all of the risks and rewards of ownership of the financial asset are transferred.

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

a. the consideration received (including any new asset obtained less any new liability assumed); and
b. any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

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

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

Modifications of financial assets and financial liabilities

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

If the cash flows of the modified asset carried at 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 profit.

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.

Offsetting of financial instruments
Financial assets and liabilities are offset and are reported net in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial instruments (continued)

Derivative financial instruments and hedge accounting

The Company designates certain derivatives (i.e. commission rate swaps) as hedging instruments in qualifying hedging relationships to manage exposures to commission rate. In order to manage particular risk, the Company applies hedge accounting for transactions that meet specific criteria.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

For the purpose of cash flow hedge which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability, or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Company will assess the effectiveness of the hedging relationship. At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. Prospective testing is performed mainly through matching the critical terms of both hedge item and instrument. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness, if any, is recognized in the statement of income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Company revokes the designation then hedge accounting is discontinued prospectively.

At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in shareholders' equity is transferred to the statement of profit or loss for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) *Income and expenses recognition*

Lease income

Finance lease income is recognised over the period of the lease on a systematic basis, which results in a constant periodic rate of return on the net investment outstanding.

Insurance income

Insurance income which is charged from the customer is recognized over time of the lease term.

Processing fee

Lease initial processing fee is recognised upfront at point in time when the lease contract is initiated.

Finance charge

Finance charge is recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to or the amortized cost of the financial instrument.

Insurance expense

Insurance expense is recognised in comprehensive income over time of the lease term.

Commission

Commission incurred for the initiation of the contract is recognised upfront at point in time when the transaction takes place and performance obligation has been met.

Measurement of amortized cost and 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 profit 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 interest, 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, interest is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest reverts to the gross basis.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Property and equipment

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

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

Depreciation is charged to statement of profit or loss using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Leasehold improvements	10
Furniture and fixtures	10
Equipment	7
Computer hardware	4
Motor vehicles	4

g) Intangible assets

Intangible assets that are acquired by the Company have finite useful lives and are measured at cost less accumulated amortisation and impairment, if any.
These are amortised on a straight-line basis in the statement of profit or loss over their estimated useful lives from the date that they are available for use.

The intangible assets comprise of computer software and their estimated useful life is 3 years.

h) Provisions

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

i) Accrued expenses and other current liabilities

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

j) 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 credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Employees' terminal benefits (continued)

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

Interest cost 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 the statement of income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements (under general and administrative expenses)

k) Zakat

The Company's shareholders are subject to zakat in accordance with the regulations of the Zakat, Tax and Custom Authority ("ZATCA") as applicable in the Kingdom of Saudi Arabia. Zakat expense is charged to the statement of comprehensive income.

l) Long-term loan

Long-term loan includes special commission bearing borrowing which is recognized initially at fair value. Subsequent to the initial recognition, special commission bearing borrowings are stated at amortized cost with any difference between cost (including transaction cost) and redemption value being recognized in the statement of profit or loss over the period of the borrowing on an effective special commission rate basis.

m) Fair value measurement

The Company measures certain financial instruments, such as, derivatives and equity instruments at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 21.

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

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

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss. The gains or losses on foreign currency transactions are included in the statement of profit or loss during the year.

o) *Segment reporting*

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments.

p) *Value Added Tax ("VAT")*

The Company collects VAT from its customers for qualifying services provided and makes VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the ZATCA representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Company and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

q) *Impairment of non-financial assets*

An assessment is made at each reporting date to determine 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 units (CGU), fair value less cost 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 group of assets. When 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.

A previously recognised 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 recognised. 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 recognised for the asset in prior years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) Government grant

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

s) Accounting for leases

On initial recognition at inception of the contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

Right of use assets

The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurement of the lease liability.

Generally, right of use assets would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the right of use assets' value.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment.

Lease liability

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

After the commencement date, the Company measures the lease liability by:
1. Increasing the carrying amount to reflect interest on the lease liability;
2. Reducing the carrying amount to reflect the lease payments made; and
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(SAR '000)

4. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash in hand	**-**	3
Cash at bank	**15,630**	7,551
	15,630	7,554

5. NET INVESTMENT IN FINANCE LEASES

		31 December 2021		
		Not later than one year	**Later than one year and less than five years**	**Total**
Lease contract receivables		**1,249,837**	**2,753,999**	**4,003,836**
Unearned finance income		**(195,982)**	**(429,296)**	**(625,278)**
Net receivable from finance lease		**1,053,855**	**2,324,703**	**3,378,558**
Provision for expected credit losses	*5.1*	**(22,838)**	**(49,460)**	**(72,298)**
Net investment in finance leases		**1,031,017**	**2,275,243**	**3,306,260**

These leased assets carry profit rates ranging from 3% to 7% per annum (2020: 3% to 7%). The Company holds the title of the leased assets as a collateral against the finance leases.

		31 December 2020		
		Not later than one year	Later than one year and less than five years	Total
Lease contract receivables		1,176,544	2,004,308	3,180,852
Unearned finance income		(215,061)	(366,424)	(581,485)
		961,483	1,637,884	2,599,367
Provision for expected credit losses	*5.1*	(33,979)	(57,896)	(91,875)
Net investment in finance leases		927,504	1,579,988	2,507,492

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

	2021	2020
Balance as at 1 January	**91,875**	105,036
Reversals for the year	**(4,578)**	(1,768)
Write off for the year	**(14,999)**	(11,393)
Balance as at 31 December	**72,298**	91,875

6. OTHER ASSETS

	31 December 2021	31 December 2020
VAT receivable, net	**40,778**	8,879
Dealers receivable	**16,211**	1,955
Assets Held for Sale	**2,920**	-
Other receivables	**8,491**	6,408
	68,400	17,242

7. INVESTMENT AT FVOCI

Pursuant to Article 18/1 of the financial leasing law, Saudi Financial Lease Contract Registry Company ("SFLCRC") was established on 3/2/1439, corresponding to 23 October 2017, under CR No. 1010612415, and SAMA approval no. 381000124076 dated 23/12/1438, corresponding to 14 September 2017.

This Company has been set up by SAMA as a means to further regulate the market and facilitate transfer of leases between suppliers of finance and counterparties. SIJIL has 700,000 shares of SR 10 each. These 700,000 shares have been divided between finance lease companies registered and operating in Saudi Arabia. The Company purchased 89,285 shares at SR 10 each, amounting to SR 892,850.

As at the date of these financial statements, the carrying value of this investment is not materially different to its fair value.

8. DERIVATIVE

			Notional amount			
SAR '000	**Positive fair value of derivative**	**Negative fair value of derivative**	**Within 3 months**	**3-12 months**	**1-5 years**	**Total**
2021	**4,034**	**(16,878)**	**119,792**	**359,375**	**1,166,667**	**1,645,833**
2020	-	(42,347)	113,542	265,625	1,145,833	1,525,000

The Company entered into commission rate swaps with its parent, BSF. The fair value of commission rate swaps is calculated using discounted cash flow model using a risk-free discount rate adjusted for appropriate risk margin for counterparty risk.

(SAR '000)

9. INTANGIBLE ASSETS

	31 December 2021	31 December 2020
Cost	**5,085**	4,794
Additions during the year	**1,351**	291
	6,436	5,085
Opening amortization balance	**(4,837)**	(4,583)
Amortization charge for the year	**(287)**	(254)
Accumulated amortization at end of the year	**(5,124)**	(4,837)
Net book value	**1,312**	248

9.1) Intangible assets includes computer software's related to loan origination, loan management and related licenses.

(SAR '000)

10. PROPERTY AND EQUIPMENT AND RIGHT OF USE ASSETS

Movement in the property and equipment and right of use assets during the year is as follows:

For the year ended 31 December 2021	**Lease hold improvements**	**Furniture and fixtures**	**Equipment's**	**Motor vehicles**	**Computer hardware**	**Right of use assets ***	**Total**
Cost:							
Balance at beginning of the year	**232**	**182**	**1,057**	**377**	**534**	**2,387**	**4,769**
Additions	**1,327**	**313**	**177**	**-**	**446**	**-**	**2,263**
Disposal	**-**	**-**	**-**	**(25)**	**-**	**-**	**-**
Balance at the end of the year	**1,559**	**495**	**1,234**	**352**	**980**	**2,387**	**7,007**
Accumulated depreciation:							
Balance at beginning of the year	**14**	**48**	**498**	**370**	**534**	**394**	**1,858**
Charge for the year	**132**	**32**	**132**	**5**	**31**	**597**	**929**
Disposal	**-**	**-**	**-**	**(25)**	**-**	**-**	**-**
Balance at the end of the year	**146**	**80**	**630**	**350**	**565**	**991**	**2,762**
Net book value at 31 December 2021	**1,413**	**415**	**604**	**2**	**415**	**1,396**	**4,245**

For the year ended 31 December 2020	Lease hold improvements	Furniture and fixtures	Equipment's	Motor vehicles	Computer hardware	Right of use assets *	Total
Cost:							
Balance at beginning of the year	8	99	880	377	534	-	1,898
Additions	224	83	192	-	-	2,387	2,886
Disposal	-	-	(15)	-	-		(15)
Balance at the end of the year	232	182	1,057	377	534	2,387	4,769
Accumulated depreciation:							
Balance at beginning of the year	6	35	382	361	534	-	1,318
Charge for the year	8	13	130	8	-	394	553
Disposal	-	-	(14)	-	-	-	(14)
Balance at the end of the year	14	48	498	369	534	394	1,857
Net book value at 31 December 2020	218	134	559	8	-	1,993	2,912

* Right of use assets pertains to lease of premises of the Company's branches located in Riyadh, Dammam and Jeddah.

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11. RELATED PARTY TRANSACTIONS

The related parties of the Company comprise of BSF and its affiliated entities and certain key management personnel. The Company transacts with its related parties in the ordinary course of business. The transactions with related parties are undertaken in light of applicable rules and regulations.

The Company in its ordinary course of business transacts with the following related parties. The terms of those billings and charges are on an agreed basis with these related parties:

Name	Relationship
Banque Saudi Fransi (BSF)	Parent
Sofinco Saudi Fransi (SSF)	Affiliate
Allianz Saudi Fransi (ASF)	Affiliate

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, significant transactions and balances arising from transactions with related parties are as follows:

a) Transactions with related parties

Nature of transactions	*Related parties*	**For the year ended 31 December 2021**	For the year ended 31 December 2020
Lease rental collected	SSF	**366**	438
IT maintenance and network related expenses	BSF	**(1,055)**	(1,370)
Financial charges on long-term loan	BSF	**(22,186)**	(28,126)
Finance charge on commission rate swaps	BSF	**(22,267)**	(18,815)
Bank charges	BSF	**(1,755)**	(1,921)
Salaries and employee related expenses	BSF	**(3,162)**	(3,581)
Finance Lease disbursed	BSF and certain member of the BOD	**1,743**	2,244
Insurance expense of leased assets	ASF	**(6,746)**	(38,404)
Draw down of long-term loan	BSF	**930,000**	460,062
Payments of long-term loan	BSF	**(379,167)**	(555,062)
Cash received for end of service benefit	BSF	**1,107**	-

Certain expenses paid by BSF on behalf of the Company were not charged by BSF to the Company; these expenses mainly included provision of rent free premises, telephone expenses and electricity expenses.

The above transactions mainly resulted in the following balances:

b) Due to related parties (excluding term loan):

	31 December 2021	31 December 2020
BSF	**8,501**	8,727
Allianz Saudi Fransi	**2,237**	22,224
	10,738	30,951

(SAR '000)

11. RELATED PARTY TRANSACTIONS (CONTINUED)

c) Other balances with a related party:

Nature of balances	*Related party*	**31 December 2021**	31 December 2020
Cash and cash equivalents	Banque Saudi Fransi	**15,630**	7,554
Long-term loan	Banque Saudi Fransi	**2,078,696**	1,529,245

d) The Company considers chief executive officer and chief financial officer as key management personnel. The compensation of the key management personnel are listed below:

	2021	2020
Salaries	**1,579**	1,393
End of service benefits	**202**	103
Other allowances	**-**	14
	1,781	1,510

e) As at 31 December 2021, the Company had 1 lease contract (2020: 7 lease contracts) with Banque Saudi Fransi with an aggregate outstanding principal amounting to SAR 14 k (2020: SAR 210 k).

12. LONG TERM LOAN

The Company has a shariah-compliant facility "Al Tawarruq" with a limit of SAR 2,600 million from its parent company Banque Saudi Fransi ("BSF").

As at 31 December, the outstanding / utilized amounts from the above facility which are as follows:

	31 December 2021	31 December 2020
Current portion	**482,029**	383,412
Non-current portion	**1,596,667**	1,145,833
	2,078,696	1,529,245

The long-term loans carry special commission rate equal to SIBOR plus bank margins payable on quarterly basis. The management have provided BSF with promissory notes against this facility.

The movement in borrowings for the year ended 31 December was as follows:

	31 December 2021	31 December 2020
Balance at beginning of the year	**1,529,245**	1,627,087
Borrowings made during the year	**930,000**	460,062
Principal repayments during the year	**(379,167)**	(555,062)
Financial charges accrued during the year	**46,091**	49,288
Financial charge repayments during the year	**(47,473)**	(52,130)
Balance at end of the year	**2,078,696**	1,529,245

(SAR '000)

13. ACCOUNTS PAYABLE

	31 December 2021	31 December 2020
Third-party insurance collected	**5,558**	8,602
Dealers payable	**256,104**	51,611
Commission payable	**5,990**	4,351
Insurance payable	**22,568**	12,130
Customer verification expense payable	**3,215**	1,974
Government fee payable	**845**	1,926
Others	**427**	33
	294,707	80,627

14. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	**31 December 2021**	31 December 2020
Salaries and employee related expenses		**9,039**	13,011
Liabilities taken over from Sofinco Saudi Fransi	*14.1*	**1,787**	2,041
Lease liability		**1,391**	1,796
Payable to service providers		**2,828**	1,133
Legal and professional charges		**636**	684
Others		**35**	28
		15,716	18,693

14.1 The details of liabilities taken over 2013 from Sofinco Saudi Fransi, a related party on account of portfolio transfer of finance lease contracts to the Company, are as follows:

	31 December 2021	31 December 2020
Legal and professional charges	**1,070**	1,324
Advance from customer	**443**	443
Third party insurance	**184**	184
Others	**90**	90
	1,787	2,041

15. EMPLOYEE BENEFITS

The following tables summaries the components of employee benefits recognized in the statements of financial position, statement of income and statement of comprehensive income.

a) Amount recognised in the statement of financial position as at 31 December:

	31 December 2021	31 December 2020
Present value of defined benefit obligation	**8,572**	6,882

b) Benefit expense (recognized in the statement of income):

	For the year ended 31 December 2021	For the year ended 31 December 2020
Current service cost	**1,364**	1,313
Interest cost	**180**	187
Benefit expense	**1,544**	1,500

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15. EMPLOYEE BENEFITS (CONTINUED)

c) Amount recognized in statement of comprehensive income:

	For the year ended 31 December 2021	For the year ended 31 December 2020
Actuarial loss on defined benefit plan	**825**	11

d) Movement in the present value of defined benefit obligation:

	For the year ended 31 December 2021	For the year ended 31 December 2020
Present value of defined benefit obligation at beginning of the year	**6,882**	5,619
Charge recognised in the statement of profit or loss:		
Current service cost	**1,364**	1,313
Interest cost	**180**	187
	1,544	1,500
Actuarial loss / (gain) on defined benefit plan recognized in the statement of other comprehensive income	**825**	11
Benefits paid	**(679)**	(247)
Present value of defined benefit obligation at end of the year	**8,572**	6,882

e) Principal actuarial assumptions:

	31 December 2021	31 December 2020
Discount rate	**2.85%**	2.45%
Salary increase rate	**2.85%**	2.45%

f) Maturity analysis

The maturity profile of the defined benefit obligation is as follows:

	2021	2020
Weighted average duration of the defined benefit obligation	**10.79**	11.48
Distribution of timing of benefit payments		
Year 1	**525**	397
Year 2	**685**	507
Year 3	**709**	547
Year 4	**858**	690
Year 5	**939**	664
Year 6-10	**5,655**	4,346

g) Sensitivity analysis

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

	31 December 2021		31 December 2020	
	Increase	**Decrease**	Increase	Decrease
Discount rate (0.5% movement)	**(443)**	**484**	(378)	414
Future salary growth (0.5% movement)	**481**	**(445)**	329	(305)

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16. PROVISION FOR ZAKAT

The movement in the provision for zakat for the years ended 31 December is as follows:

	31 December 2021	31 December 2020
Opening provision for zakat	**23,573**	8,494
Charge for the year:		
- Current	**22,038**	19,263
- Prior years	**1,934**	11,184
- Deferred tax	**-**	2,909
Charge for the year	**23,972**	33,356
Payment during the year	**(21,165)**	(18,277)
Closing provision for zakat	**26,380**	23,573

Status of assessments

The Company has submitted its zakat and income tax returns for the years ended 31 December 2012 to 2020 with the General Authority of Zakat and Income Tax ("ZATCA").

Following is the zakat and income tax status of the Company:

2012 to 2015

ZATCA issued assessments for the years 2012 to 2015 and claimed additional zakat liability of SAR 9,828,110. The differences mainly resulted from the non-deduction of the provision for finance lease losses, provision for end of service benefit, depreciation and due to related parties. The Company has filed an appeal with the General Secretariat of Tax Committees ("GSTC") against the said assessment for which hearing session is set up on 14 March 2022; however, the Company on a prudent basis recorded SAR 3.7 million as its best estimate of additional zakat liability of the said assessments.

2015 to 2017

The Company has reached a settlement with ZATCA, who had raised initial additional demands for the years pertaining to 2015 to 2017. Current outstanding amount as at 31 December 2021 with respect to this settlement amount is SR 2.1 million (2020: SR 3.1 million). The Company will settle these amounts in equal installments of SR 1 million each year till 1 December 2023.

2019 to 2020

During the year, ZATCA issued assessments for the years 2019 and 2020 and claimed additional zakat liability of SAR 386,514 and SAR 1,547,745 respectively. The differences mainly resulted from the amendments made by ZATCA in equity, long term lease finance receivables and deferred tax assets. The Company has accepted ZATCA assessment and recorded a provision of SR 1,934,259 of additional zakat liability and have paid the said assessments.

17. SHARE CAPITAL

The authorised, issued and paid-up share capital of the Company is SAR 500 million (2020: SAR 500 million) divided into 50 million (2020: 50 million) shares of SAR 10 (2020: SAR 10) each and 100% owned by BSF.

18. STATUTORY RESERVE

The Company's Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia require the Company to allocate 10% of its net income before zakat and income tax each year to form a statutory reserve until such reserve equals 30% of the Company's share capital. The statutory reserve is not available for distribution.

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19. FEE INCOME AND EXPENSES

Fee income	2021	2020
Insurance income	**157,268**	195,060
Processing fee	**16,317**	9,611
Other operating income	**2,788**	2,695
	176,373	207,366
Fee expenses		
Insurance expenses	**(101,555)**	(126,605)
Commission	**(18,147)**	(10,281)
Registration fee	**(3,790)**	(3,112)
Verification expenses	**(2,794)**	(2,265)
	(126,286)	(142,263)

20. GENERAL AND ADMINISTRATION EXPENSES

	2021	2020
IT maintenance and network related expenses	**1,616**	2,364
Communication expenses	**674**	802
Legal and professional charges	**924**	930
General insurance expense	**183**	257
Collection expenses	**1,137**	1,600
Printing and stationery	**280**	165
Consultancy fees	**581**	185
Traveling expenses	**170**	172
Repair and maintenance	**169**	137
Board remuneration	**125**	280
Advertising and promotion expenses	**1,686**	251
Penalty paid to SAMA	**-**	125
Other expenses	**860**	1,038
	8,405	8,306

21. OTHER INCOME

	2021	2020
Write off recoveries	**2,421**	159
Gain on sale of office equipment	**11**	-
Others (21.1)	**5,620**	4,213
	8,052	4,372

21.1 The other income includes fee charged from customers for services including processing fee on transfer of ownership after lease term and loss key charges made during the year.

22. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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22. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost except for derivative financial instruments and equity instrument which are measured at fair value. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance leases.

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

		---Fair Value---			
31 December 2021	***Carrying Value***	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets:					
Net investments in finance leases	**3,378,558**	**-**	**-**	**3,717,071**	**3,717,071**
Positive fair value of derivative	**-**	**-**	**4,034**	**-**	**4,034**
Financial liabilities:					
Negative fair value of derivative	**16,878**	**-**	**16,878**	**-**	**16,878**

		---Fair Value---			
31 December 2020	*Carrying Value*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets:					
Net investments in finance leases	2,507,492	-	-	2,843,952	2,843,952
Financial liabilities:					
Negative fair value of derivative	42,347	-	42,347	-	42,347

The fair value of net investment in finance lease is determined using discounted cash flow technique considering the credit adjusted market rates. The rates are determined based on the risk profile of lease receivables and current commission rates.

Fair value of long-term loan is not significantly different from the carrying values included in the financial statements since the current market commission rates for similar financial instruments are not significantly different from the contracted rates.

Fair value of financial assets held at fair value through other comprehensive income – equity instruments is not significantly different from the carrying values included in the financial statements. The investment is measured in level 3 in fair value hierarchy.

Fair value of other assets, excluding asset held for sale is not significantly different from carrying values included in the financial statements due to short term in nature.

Fair value of loan from SAMA is not significantly different from carrying values included in the financial statements due to the fair valuation of commission free loan at the initial recognition.

Fair value of accounts payable is not significantly different from carrying values included in the financial statements due to short term in nature.

There had been no inter-level transfers during the year.

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23. FINANCIAL RISK MANAGEMENT

The Board of Directors are responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has nominated the risk management head, who has the responsibility to monitor the overall risk process within the Company and for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The risk management head is responsible for managing risk decisions and monitoring on risk levels and reports on a quarterly basis to the Risk Management Committee.

1) Credit risk

The Company manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to investment in finance lease receivables.

The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. Company's risk management policies are designed to identify, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored on regularly basis.

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

The Company seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. Further, the Company holds the title of the leased assets as a collateral against the finance leases and in case of default by the customer, the outstanding amount is recovered through the disposal of the leased assets.

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position:

	31 December 2021	31 December 2020
Cash and cash equivalent	**15,630**	7,554
Net investment in finance lease	**3,306,260**	2,507,492
Other receivables	**7,022**	7,525
	3,328,912	2,522,571

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23. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

a) Credit quality analysis

The following table sets out information about the credit quality of investment in finance lease as at 31 December 2021. The amounts in the table represent gross carrying amounts.

	31 December 2021			
Gross investment in finance leases	**12 Month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Very strong quality	**3,826,303**	**8,150**	-	**3,834,453**
Good quality	**42,350**	**44,659**	-	**87,009**
Satisfactory quality	**532**	**46,686**	-	**47,218**
Impaired	-	-	**35,156**	**35,156**
Total	**3,869,185**	**99,495**	**35,156**	**4,003,836**

	31 December 2020			
Gross Investment in finance leases	12 Month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Very strong quality	2,427,413	10,010	-	2,437,423
Good quality	593,142	52,907	-	646,049
Satisfactory quality	21,399	7,789	-	29,188
Impaired	-	-	68,192	68,192
Total	3,041,954	70,706	68,192	3,180,852

b) 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.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the 12 month probability of default (PD) as at the reporting date; with
- the 12 month probability of default (PD) at the time of initial recognition of the exposure

i) 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.

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

i) Credit risk grades (continued)

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.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of exposures involves use of the following data.

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files. • Data from credit reference agencies and changes in external credit ratings. • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data and customer behavior • Affordability metrics • External data from credit reference agencies including industry-standard credit scores	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

ii) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. Company collects performance and default information about its credit risk exposures separately for the corporate and retail portfolios.

The Company analyses the relationships between its historical default rates and macro-economic factors. For both the corporate and retail portfolios, the key macro-economic indicator is un employment rate, share price index, and balance of payments.

iii) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency is based on the Company's quantitative modeling.

Using its expert credit judgement 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.

Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews of the finance lease portfolio to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- the criteria do not align with the point in time when an asset becomes 30 days past due;

(SAR '000)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

iv) 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 advice from economic experts and consideration of a variety of forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables. The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting.

1. Probability weightings
The Company considered the probability weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Company's credit portfolios in determining them.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past seven years. To account for the impact of COVID-19, the Company has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic indicators	Forecast calendar years used in 2021 ECL_model			Forecast calendar years used in 2020 ECL model		
	2022	2023	2024	2021	2022	2023
Unemployment Rate	7.18	6.90	6.66	N/A	N/A	N/A
Share Price Index	10,880	11,292	11,516	N/A	N/A	N/A
Balance of Payment	2.75	3.55	4.02	N/A	N/A	N/A
GDP	N/A	N/A	N/A	2.11	2.20	2.28
Oil Price	N/A	N/A	N/A	$69.10	$69.20	$69.30

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

v) Definition of 'Default'

The Company considers a financial asset and investment in finance lease to be in default when:

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

In assessing whether a borrower is in default, the Company considers indicators that are quantitative- e.g. overdue status and non-payment on another obligation of the same customer to the Company.

vi) Measurement of ECL

The key inputs into the measurement of ECL are the following risk estimates:

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

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored for company's portfolio. These rating models are based on 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. Further the PD term structure is estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. Company estimates LGD based on the history of recovery rates of claims against defaulted counterparties. LGD model considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. Company derives the EAD from the current exposure to the counterparty.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk.

During the year, the Company performed ECL model validation exercise which resulted to the following key updates in the model:

Parameter	Update
PD model	Pool wise PDs has been re-calibrated and updated for ECL use
Macroeconomic model	New macro model was developed based on following macro economic factors: 1. Unemployment Rate 2. Tadawal share index 3. Balance of Payment
LGD model	LGD model parameters have been re-caliberated.

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

vi) Measurement of ECL (continued)

Sensitivity of ECL allowance:
The table below illustrates the sensitivity of ECL to the key macroeconomic factor used in determining it as at the year end:

Assumption sensitized	Impact on expected credit losses (2021)
Increase of 14% in Unemployment Rate	4,914
Increase of 24% in Unemployment Rate	11,532

vii) Modified financial assets

The contractual terms of a lease 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 lease whose terms have been modified may be derecognized and the renegotiated instrument recognized as a new instrument at fair value in accordance with the 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 reflects comparison of:

- The risk of default at the reporting date (based on modified contractual terms) and
- The risk of default occurring at initial recognition (based on original, unmodified contractual terms).

If the modification results in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of the following:

- risk of default at the reporting date (based on modified contractual terms); and
- the risk of default based on the modified terms.

The modified terms usually include extending the maturity, changing the timing of profit payments. Both retail and corporate lease facilities are subject to modification.

For financial assets, which are modified, the estimate of PD reflects whether the modification has improved or restored the Company ability to collect profit and principal. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

vii) Collateral

The Company in the ordinary course of lending activities hold collateral as security to mitigate credit risk in the investments in finance lease. This collateral includes vehicles. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

The amount of collateral held as security for investments in finance lease that are credit-impaired as at 31 December are as follows:

Loan to Value (SAR 000)	**2021**	2020
Less than 50%	**11,050**	10,028
51-70%	**7,850**	7,338
More than 70%	**53,489**	114,004
Total	**72,389**	131,370

(SAR '000)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

vii) Modified financial assets (continued)

Generally, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired / default or the risk of default is considered to have decreased.

c. Loss allowance

The following table shows reconciliations from the opening to the closing balance of the carrying amount of the investment in finance lease and the related loss allowance account for the year ended 31 December 2021.

Gross investments in finance lease	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2021	**2,486,969**	**58,473**	**53,925**	**2,599,367**
Transfer from 12 Month ECL	(75,335)	63,300	12,035	-
Transfer from Lifetime ECL not credit impaired	16,601	(21,670)	5,069	-
Transfer from Lifetime ECL credit – impaired	3,979	1,664	(5,643)	-
Net repayment received during the year	(999,271)	(43,602)	(23,556)	**(1,066,429)**
New finance lease receivables originated during the year	1,835,464	23,710	1,445	**1,860,619**
Write off	-	-	(14,999)	**(14,999)**
Balance at 31 December 2021	**3,268,407**	**82,875**	**28,276**	**3,379,558**

Expected credit losses	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2021	**33,060**	**5,752**	**53,063**	**91,875**
Transfer from 12 Month ECL	(1,854)	1,443	411	-
Transfer from Lifetime ECL not credit – Not impaired	818	(1,157)	339	-
Transfer from Lifetime ECL not credit – impaired	3,119	1,382	(4,501)	-
Net re-measurement of loss allowance	(11,616)	4,192	3,981	**(3,443)**
Financial assets that have been derecognized during the year	(7,939)	(1,129)	(15,139)	**(24,207)**
New finance lease receivables originated during the year	18,065	4,084	923	**23,072**
Write Off	-	-	(14,999)	**(14,999)**
Balance at 31 December 2021	**33,653**	**14,567**	**24,078**	**72,298**

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

c) Loss allowance (continued)

The following table shows reconciliations from the opening to the closing balance of the carrying amount of the investment in finance lease and the related loss allowance account for the year ended 31 December 2020.

Gross investments in finance lease	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2020	2,270,238	124,449	137,014	2,531,701
Transfer from 12 Month ECL	(50,896)	36,479	14,417	-
Transfer from Lifetime ECL not credit – impaired	55,990	(64,297)	8,307	-
Transfer from Lifetime ECL credit impaired	38,653	9,888	(48,541)	-
Net repayment received during the year	(862,067)	(56,373)	(46,690)	(965,130)
New finance lease receivables originated during the year	1,035,051	8,327	811	1,044,189
Write Off	-	-	(11,393)	(11,393)
Balance at 31 December 2020	2,486,969	58,473	53,925	2,599,367

Expected Credit Loss Allowance	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2020	19,818	6,014	79,204	105,036
Transfer from 12 Month ECL	(955)	701	254	-
Transfer from Lifetime ECL not credit – impaired	2,966	(3,406)	440	-
Transfer from Lifetime ECL credit impaired	11,969	3,093	(15,062)	-
Net re-measurement of loss allowance	(8,511)	(2,194)	13,077	2,372
Financial assets that have been derecognized during the year	(4,589)	(1,510)	(14,082)	(20,181)
New finance lease receivables originated during the year	12,362	3,054	625	16,041
Write Off	-	-	(11,393)	(11,393)
Balance at 31 December 2020	33,060	5,752	53,063	91,875

2) Market rate risk

a) Special commission rate risk

Special commission rate risk is the uncertainty of future earnings resulting from fluctuations in special commission rates. The risk arises when there is a mismatch in assets and liabilities, which are subject to special commission rate adjustment within a specified period. The most important source of such rate is the Company's borrowing where fluctuations in special commission rates, if any, are reflected in the results of its operations. The sensitivity to a 50 basis points change in financial charges on long term loans, with all other variable constant on the Company's financial charges for the year are mentioned below:

	2021		2020	
	Change in basis points	**Impact on net income**	Change in basis points	Impact on net income
Saudi Riyals in '000	**+50**	**(28,547)**	+50	(18,164)
Saudi Riyals in '000	**-50**	**28,547**	-50	18,164

(SAR '000)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

2) Market rate risk (Continued)

b) 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 did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars. As US Dollar is pegged with Saudi Riyal, therefore, Company does not have any currency risk in these transactions.

3) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

Management monitors the maturity profile of the Company's assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date to ensure that adequate liquidity is maintained. All liabilities other than end of service benefits and long-term loans are contractually payable on a current basis. The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted repayment obligation. The contractual maturities of the liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective expected maturities.

The maturity profile of the Company's financial assets, liabilities, and shareholders' equity is as follows:

31 December 2021	Within 3 months	3 to 12 months	1 to 5 years	No fixed maturity	Total
Assets					
Cash in hand and at banks	-	-	-	15,630	15,630
Net investment in finance leases	300,143	730,874	2,275,243	-	3,306,260
Investment at FVOCI	-			893	893
Other receivables	27,318	107,669	5,557	-	140,544
	327,461	838,543	2,280,800	16,523	3,463,327
Liabilities					
Accounts payable	266,582	28,125	-	-	294,707
Accrued expenses and other liabilities	12,538	3,178	-	-	15,716
Due to related parties		10,738	-	-	10,738
Employees' end of service benefits	-	-	-	8,572	8,572
SAMA Deposit Net	-	16,028	74	-	16,102
Negative fair value of derivatives	16,878	-	-	-	16,878
Long term loan	122,654	359,375	1,596,667		2,078,696
Provision for Zakat	26,380	-	-	-	26,380
Advance from customer	-	85,785	-	-	85,785
	445,032	503,229	1,596,741	8,572	2,553,574
Maturity gap	(117,571)	335,314	684,059	7,951	
Cumulative maturity gap	(117,571)	217,743	901,802	909,753	

(SAR '000)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

3) Liquidity risk (continued)

31 December 2020	Within 3 months	3 to 12 months	1 to 5 years	No fixed maturity	Total
Assets					
Cash in hand and at banks	-	-	-	7,554	7,554
Net investment in finance leases	272,918	654,586	1,579,988	-	2,507,492
Investment at FVOCI	-	-	-	893	893
Other receivables	-	-	-	30,284	30,284
	272,918	654,586	1,579,988	38,731	2,546,223
Liabilities					
Accounts payable	72,025	8,602	-	-	80,627
Accrued expenses and other liabilities	16,652	2,041	-	-	18,693
Due to related parties	30,951	-	-	-	30,951
Employees' end of service benefits	-	-	-	6,882	6,882
SAMA Deposit Net	-	5,166	4,953	-	10,119
Negative fair value of derivatives	-	-	-	42,347	42,347
Long term loan	112,621	270,791	1,145,833	-	1,529,245
	232,249	286,600	1,150,786	49,229	1,718,864
Maturity gap	40,669	367,986	429,202	(10,498)	
Cumulative maturity gap	40,669	408,655	837,857	827,359	

24. GEOGRAPHICAL CONCENTRATION

The Company's operations are restricted to the Kingdom of Saudi Arabia only.

25. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Company's Board of Directors in its function as chief decision maker in order to allocate resources to the segments and to assess their performance.

A segment is a distinguishable component that is engaged in providing products or services (a business segment), which is subject to risks and rewards that are different from those of other segments.

	Amount in SAR '000		
31 December 2021	**Retail**	**Corporate**	**Total**
Total assets	**3,347,751**	**115,577**	**3,463,328**
Total liabilities	**2,549,735**	**3,839**	**2,553,574**
Allowance for expected credit losses	**68,341**	**3,957**	**72,298**
Total income	**315,384**	**13,614**	**328,998**
Total operating expenses	**207,521**	**4,947**	**212,469**
Net income for the year	**107,863**	**8,667**	**116,529**

	Amount in SAR '000		
31 December 2020	Retail	Corporate	Total
Total assets	2,522,144	83,937	2,606,081
Total liabilities	1,813,808	3,755	1,817,563
Impairment allowance for credit losses	88,606	3,269	91,875
Total income	339,566	3,056	342,622
Total operating expenses	232,456	4,618	237,074
Net income for the year	107,110	(1,562)	105,548

26. COMMITMENTS

The Company has finance lease contracts approved but not utilised, indicative offers issued which are under consideration of the customers as of the reporting date which have the potential to convert into financing amounting to SAR 70.91 million (2020: SR 19.42 million).

As at 31 December 2021, the Company has an outstanding guarantee of SR 30.2 million (2020: SR 30 million) submitted in favour of Abdul Latif Jameel Retail Company Limited against purchases of vehicle for onward leasing to customers.

27. SAMA SUPPORT PROGRAMS AND INITIATIVES

Impact of COVID-19 on Expected Credit Losses ("ECL")

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are experiencing multiple waves of infections, despite having previously controlled the outbreak through aggressive precautionary measures. The government of the Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date. The Company continues to evaluate the current situation through detailed review of exposures at a granular level, in addition to other risk management practices to manage the impact COVID-19 outbreak has had on its normal operations and financial performance. During the year, the Company updated its ECL model and refined some of its assumptions including the impacts of current evolving situation of the COVID-19 pandemic, details of which are mentioned in note 23(1)(b)(vi).

27. SAMA SUPPORT PROGRAMS AND INITIATIVES (CONTINUED)

SAMA support programs and initiatives.

In response to COVID-19, SAMA launched several programs and as part of the deferred payments program launched in March 2020 during the year ended 31 December 2021, there were further extensions to the program announced. The Company implemented the payment reliefs by deferring the installments falling due from 14 March 2020 to 30 June 2021 amounting to SAR 38.22 million and extended the tenure of the applicable leases at no additional cost to the customer. For the last 2 quarters of 2021, the Company performed an assessment to determine the pool of customers eligible for continued deferment and determined that there were no eligible customers to avail this deferment.

The accounting impact of above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in total modification losses amounting to SAR 7.2 million out of which SAR 3.1 million was recorded in the year ended 31 December 2021 (31 December 2020: SAR 4.1 million).

In order to compensate the related cost that the Company is expected to incur under the above SAMA program, the Company received profit free deposit from SAMA amounting to SAR 18.5 million with varying maturities, which qualified as government grant.

Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income and the impact of which is immaterial to the financial statements.

28. SUBSEQUENT EVENTS

There were no subsequent events after the statement of financial position date which require adjustments to / or disclosure in the financial statements.

29. BOARD OF DIRECTORS' APPROVAL

The financial statements have been approved by the Board of Directors on 3 Shaban 1443H (corresponding to 6 March 2022).