

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2021
together with the
Independent auditor's report



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Headquarters in Riyadh

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 shareholders of Deutsche Gulf Finance

Opinion

We have audited the financial statements of Deutsche Gulf Finance ("the Company"), which comprise the statement of financial position as at 31 December 2021, the statements of comprehensive income, changes in 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 Regulations for Companies, and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2021
(Saudi Riyals)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
ASSETS			
Cash and cash equivalents	5	14,406,536	9,404,961
Other assets	6	111,559,383	67,758,369
Due from an affiliated company	16	4,156,380	4,105,769
Ijara receivables, net	7	2,356,153,392	2,105,762,358
Servicing rights under agency arrangements	8	50,391,755	15,882,475
Financial asset held at fair value through other comprehensive income		892,850	892,850
Deferred tax asset	15	3,850,154	3,753,049
Property, equipment and right-of-use assets	10	31,216,533	31,958,581
Intangible assets	9	1,702,296	687,490
TOTAL ASSETS		<u>2,574,329,279</u>	<u>2,240,205,902</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Financing facilities	11	1,739,478,886	1,457,109,849
Due to an affiliated company	16	559,638	514,638
Provision for zakat and income tax	15	12,948,466	13,273,098
Accounts and other payables		934,524	900,673
Dividend payable	23	395,322	10,763,638
Accrued expenses and other liabilities	12	92,722,538	69,446,400
Employees' end of service benefits		4,743,098	4,613,064
TOTAL LIABILITIES		<u>1,851,782,472</u>	<u>1,556,621,360</u>
EQUITY			
Share capital	17	575,000,000	575,000,000
Statutory reserve	18	20,943,384	14,172,157
Retained earnings		126,603,423	94,412,385
TOTAL EQUITY		<u>722,546,807</u>	<u>683,584,542</u>
TOTAL LIABILITIES AND EQUITY		<u>2,574,329,279</u>	<u>2,240,205,902</u>

The attached notes 1 to 25 form an integral part of these financial statements.




DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2021
(Saudi Riyals)

	<i>Note</i>	<u>2021</u>	<u>2020</u>
INCOME			
Income from Ijara receivables		171,564,408	151,798,905
Realised gain on sale, settlement or early termination of Ijara receivables		7,345,591	6,875,874
Servicing fee	8	44,065,178	18,969,563
Other income		104,350	278,472
TOTAL INCOME		<u>223,079,527</u>	<u>177,922,814</u>
OPERATING EXPENSES			
Financial charges		39,285,729	21,506,590
Employees' benefits and compensation	13	40,025,661	42,950,262
Expected credit losses on Ijara receivables	7	28,091,212	17,290,728
Depreciation	10	1,630,697	1,430,997
Amortisation	9	506,698	288,832
Other expenses	14	36,055,505	26,573,524
TOTAL OPERATING EXPENSES		<u>145,595,502</u>	<u>110,040,933</u>
NET INCOME FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		<u>77,484,025</u>	<u>67,881,881</u>
Zakat and income tax	15	9,771,760	8,359,090
NET INCOME FOR THE YEAR AFTER ZAKAT AND INCOME TAX		<u>67,712,265</u>	<u>59,522,791</u>
Other comprehensive income		--	--
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>67,712,265</u>	<u>59,522,791</u>


The attached notes 1 to 25 form an integral part of these financial statements.



DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021
(Saudi Riyals)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at 1 January 2021	575,000,000	14,172,157	94,412,385	683,584,542
Net income for the year	--	--	67,712,265	67,712,265
Other comprehensive income	--	--	--	--
Dividend (Note 23)	--	--	(28,750,000)	(28,750,000)
Transfer to statutory reserve	--	6,771,227	(6,771,227)	--
Balance as at 31 December 2021	575,000,000	20,943,384	126,603,423	722,546,807
Balance as at 1 January 2020	575,000,000	8,219,878	69,591,873	652,811,751
Net income for the year	--	--	59,522,791	59,522,791
Other comprehensive income	--	--	--	--
Dividend	--	--	(28,750,000)	(28,750,000)
Transfer to statutory reserve	--	5,952,279	(5,952,279)	--
Balance as at 31 December 2020	575,000,000	14,172,157	94,412,385	683,584,542



The attached notes 1 to 25 form an integral part of these financial statements.




DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2021
(Saudi Riyals)

	<i>Note</i>	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year before zakat and income tax		77,484,025	67,881,881
<i>Adjustments to reconcile net income before zakat and income tax to net cash used in operating activities:</i>			
Amortisation	9	506,698	288,832
Depreciation	10	1,630,697	1,430,997
Employees' end of service benefits charge		1,066,755	1,446,797
Expected credit losses on Ijara receivables	7	28,091,212	17,290,728
Special commission expense on lease liabilities		62,830	83,228
Loss on disposal of property and equipment		3,921	--
Modification loss on Ijara receivables, net		7,553,240	7,823,208
Modification gain on financing facilities, net		--	(8,889,122)
		<u>116,399,378</u>	<u>87,356,549</u>
<i>Net (increase) / decrease in operating assets</i>			
Ijara receivable		(286,035,486)	(570,733,930)
Other assets		(45,221,165)	(20,294,434)
Servicing rights under agency arrangements		(34,509,280)	(12,924,543)
Due from an affiliated company		(50,611)	(56,067)
<i>Net increase / (decrease) in operating liabilities</i>			
Accounts and other payables		33,851	(527,562)
Accrued expenses and other liabilities		23,713,096	22,028,819
Due to an affiliated company		45,000	45,000
		<u>(225,625,217)</u>	<u>(495,106,168)</u>
Employees' end of service benefits paid		(936,721)	(444,647)
Zakat paid	15b	(5,657,673)	(4,428,476)
Income tax paid	15b	(3,115,673)	(2,190,599)
Net cash used in operating activities		<u>(235,335,284)</u>	<u>(502,169,890)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	10	(602,782)	(2,464,228)
Acquisition of intangible assets	9	(1,521,504)	(641,991)
Net cash used in investing activities		<u>(2,124,286)</u>	<u>(3,106,219)</u>
CASH FLOWS FROM FINANCING ACTIVITY			
Proceeds from financing facilities	11	1,085,148,972	4,096,918,017
Repayment of financing facilities	11	(802,779,935)	(3,599,769,437)
Dividend paid	23	(39,118,316)	(17,986,362)
Payment of principal portion of lease liabilities		(789,576)	(507,155)
Net cash from financing activity		<u>242,461,145</u>	<u>478,655,063</u>
Net increase / (decrease) in cash and cash equivalents		<u>5,001,575</u>	<u>(26,621,046)</u>
Cash and cash equivalents at beginning of the year		9,404,961	36,026,007
Cash and cash equivalents at end of the year	5	<u>14,406,536</u>	<u>9,404,961</u>
Special commission received during the year		<u>150,674,510</u>	<u>139,872,762</u>
Special commission paid during the year		<u>36,731,606</u>	<u>40,923,425</u>

The attached notes 1 to 25 form an integral part of these financial statements.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

1. CORPORATE INFORMATION

Deutsche Gulf Finance (“the Company”) is a Saudi closed joint stock company established pursuant to a ministerial resolution numbered 3/Q dated 6 Muharram 1431H (corresponding to 23 December 2009) and registered in the Kingdom of Saudi Arabia under commercial registration number 1010280521 dated 9 Safar 1431H (corresponding to 25 January 2010). The Company has a branch in Jeddah registered under commercial registration number 4030245681 dated 19 Jumada Thani 1434H (corresponding to 29 April 2013) and a branch in Al Khobar registered under commercial registration number 2051052773 dated 19 Jumada Thani 1434H (corresponding to 29 April 2013). The registered office of the Company is located at Al Imam Saud Ibn Faysal Road – Al Sahafah District, P.O. Box 75370, Riyadh 13321, Kingdom of Saudi Arabia.

The Company is engaged in real estate financing that includes acquisition, purchase of lands and buildings for the purposes of financing facilities (except in Makkah and Madinah), in accordance with license number 2030114773 dated 2 Dhul- Qadah 1430H (corresponding to 21 October 2009) as obtained from the Saudi Arabian General Investment Authority.

The Saudi Central Bank (“SAMA”) issued the Implementing Regulations of the Law on Supervision of Finance Companies which was published on 24 February 2013 following the Financial Lease Law and the Law on Supervision of Finance Companies (“the laws”) published on 27 August 2012. The Company was issued a license (number 17/A SH/201405) from SAMA on 20 May 2014 (corresponding to 21 Rajab 1435H).

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared:

- (a) 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
- (b) in compliance with the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

Basis of measurement

The financial statements are prepared under the historical cost convention except for investment which is measured at fair value through other comprehensive income (“FVOCI”).

Functional and presentational currency

The financial statements are presented in Saudi Riyals, which is the functional and presentation currency of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 audited financial statements for the year ended 31 December 2020. Based on the adoption of new standard 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 audited financial statements.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in accounting policies (continued)

New standards, amendments and interpretations adopted in preparation of these financial statements

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).

New standards and amendments issued but not yet effective and not early adopted

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.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, bank balances in current accounts, short-term deposits with original maturity of 90 days or less from the date of investment and cash on hand.

Intangible assets

Intangible assets acquired by the Company are measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful life of software is three years.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

Property and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Company and cost of the asset can be reliably measured. Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.

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

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

The carrying amount of an item of property and equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in the statement of profit or loss and other comprehensive income when the item is de-recognised.

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

Leasehold improvements	Over the shorter of the useful life or 5 to 10 years
Building	35 years
Equipment and motor vehicles	3 years
Furniture and fixtures	5 years

Capital work in progress

Capital work in progress includes building under improvements for which it is probable that future economic benefits will flow to the Company and the cost can be measured reliably. Typically, these are items that have not yet been brought to the location and/or condition necessary for it to be capable of operating in the manner intended by management.

Ijara receivables

Ijara receivables represent assets transferred under finance lease comprising Islamic lease agreement and the present value of the lease payments is recognised as a receivable and disclosed under “*Ijara* receivables”. The difference between the gross receivables and the present value of the receivables is recognised as unearned *Ijara* income. *Ijara* income is recognised over the term of the *Ijara* using the net investment method, which reflects a constant periodic rate of return.

Modifications of Ijara receivables

If the terms of *Ijara* receivables 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 *Ijara* receivables are deemed to have expired. In this case, the original *Ijara* receivables is derecognized and a new *Ijara* receivables 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 *Ijara* receivables. In this case, the Company recalculates the gross carrying amount of the *Ijara* receivables 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 ECL on *Ijara* receivables. In other cases, it is presented as profit.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Ijara mawsofa fi athemmah

Ijara mawsofa fi athemmah (forward lease) is a method of Islamic leasing where the lessor accepts rent prior to the delivery of the property. The gross amounts due under originated Ijara mawsofa fi athemmah includes the total of future lease payments on Ijara mawsofa fi athemmah (lease contracts receivable), plus estimated residual amounts receivable. The difference between the lease contracts receivable and the cost of the leased assets is recorded as unearned Ijara mawsofa fi athemmah income and for presentation purposes, is deducted from the gross amounts due under Ijara mawsofa fi athemmah. Ijara mawsofa fi athemmah income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Expected credit losses (“ECL”) on Ijara receivable

The Company recognizes loss allowance for ECL on Ijara receivables. The Company measures loss allowance at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL:

- Ijara receivables that are determined to have low credit risk at the reporting date; and
- Ijara receivables on which credit risk has not increased significantly since their initial recognition

The Company considers Ijara receivables to have low credit risk when their exposure with days past due (“DPD”) is 30 days or less. 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.

Significant increase in credit risk

To determine 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, expert credit assessment and forward-looking information.

The Company compares the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date. The Company assess for significant increase in credit risk (“SICR”) at a facility level and the main indicators for SICR are as follows:

- Real estate financing facilities with principal and commission which are past due by more than 30 days;
- restructured facilities due to credit risk over the last 12 months;
- high risk events/attributes of customers (bankruptcy or other similar events); or
- any counter party identified by the senior management / board as having financial difficulty and enhanced monitoring is required.

The Company considers exposures with 30+ DPD as having Significant Increase in Credit Risk and will accordingly be taken to Stage 2. The Company classifies its Ijara receivables into stage 1, stage 2 and stage 3, based on the applied ECL methodology, as described below:

Stage 1: For Ijara receivables where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Company recognises an allowance based on the 12-month ECL and income is calculated on the gross carrying amount of asset (i.e. without deduction of credit allowance. All accounts at origination would be classified as Stage 1 only exceptions are Purchased or Originated Credit Impaired (“POCI”) assets (if any).

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ECL on Ijara receivable (continued)

Stage 2: For Ijara receivables where there has been a significant increase in credit risk since initial recognition but are not credit-impaired (i.e. there is no objective evidence of impairment), the Company recognises an allowance for the lifetime ECL. With respect to portfolio held by the Company, all the exposures are moved to stage 2 where the customer is 30+ DPD (principal or commission payments) as of reporting date.

In addition, the account tagged as watch list / restructured as of reporting date, including being tagged as watch list / restructured in last 12 months, are classified in stage 2. Further, any counterparty identified by senior management / board as having SICR and for which enhanced monitoring is required, will also be subject to stage 2 ECL calculation.

Stage 3: For credit-impaired (i.e. there is objective evidence of impairment at reporting date) financial instruments, the Company recognises the lifetime ECL. Default identification process i.e. 90+ DPD more (obligors already defaulted) is used as stage 3.

Credit risk Days Past Due (DPD) Buckets

The Company allocates each exposure to a credit risk DPD buckets using qualitative and quantitative factors that are indicative of risk of default. Credit risk DPD buckets are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each exposure is allocated to a credit risk DPD bucket at initial recognition based on available information about the counterparty. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk DPD buckets.

Definition of default

The Company uses 90+ DPD on principal and commission repayments as a hard stop default definition along with certain other unlikeliness-to-pay (UTP) indicators defined in risk management policies.

Credit-impaired Ijara receivables

At each reporting date, the Company assesses whether Ijara receivables are credit-impaired. A Ijara receivable is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the Ijara receivables have occurred. Evidence that a Ijara receivables 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 Ijara by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
or
- the disappearance of an active market for a security because of financial difficulties.

Ijara 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.

Incorporation of forward-looking information

The Company incorporates forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs. The Company considers forward-looking information such as macroeconomic factors (e.g. GDP growth, Brent oil and government spending) and economic forecasts. Given the nature of Company's exposure and availability of historical statistical information, the Company derives Point-in-Time (PIT) Probability of default (PD) using Through the Cycle (TTC) PD calculated through Loss rate estimation method. The Company uses the Vasicek model to link the TTC PDs with forward looking economic factors to derive PIT PD estimate for each DPD bucket.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ECL on Ijara receivable (continued)

Measurement of ECL

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

- i. Probability of default (PD);
- ii. Loss given default (LGD); and
- iii. Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models using historical data. They are adjusted to reflect forward-looking information as described above. PD estimates are estimates at a certain date, which are calculated based on statistical models (loss rate estimation method), and assessed to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between DPD buckets, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the Ijara receivables. For real estate financing secured by property, LTV ratios are a key parameter in determining LGD.

LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated the LGD based on the historical exposure data of the defaulted customers.

Where the exposure is 100% or more collateralized (i.e. the value of the collateral after haircut is equal to or greater than the exposure), the Company imposes a LGD floor (recovery cap) for real estate financing.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of an Ijara receivables is its gross carrying amount.

Write-off

Ijara receivables is written off (either partially or in full) when there is no realistic prospect of recovery. However, Ijara receivables 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 ECL on Ijara receivables.

Presentation of allowance for ECL in the statement of financial position

Impairment allowances for ECL of Ijara receivables are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Real estate property is valued by independent valuers appointed by the Company.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ECL on Ijara receivable (continued)

Property repossessed

The Company policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value less cost to sell for non-financial assets at the repossession date in, line with the Company policy.

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. Financial assets comprise of cash and cash equivalents, due from an affiliated company and other receivables. Financial liabilities comprise of financing facilities, due to an affiliated company, accounts and other payables and other liabilities.

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").

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 profit on the principal amount outstanding.

Financial asset at fair value through other comprehensive income

Financial assets at FVOCI comprise of investment in equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss.

These investments are initially recognised at fair value plus direct attributable transaction cost and subsequently measured at fair value. Gains and losses arising from change in fair value are included in other comprehensive income.

Upon disposal of the equity investments, any balance within the other reserve for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss. Dividends on such investments are recognised in statement of profit or loss, unless dividends represent a recovery of cost.

Financial asset at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of investments in equity securities that do not qualify for measurement at either amortized cost or at FVOCI.

Financial instruments held at FVTPL are initially recognized at fair value, with transaction cost recognized in the statement of profit or loss as incurred. Subsequently, they are measured at fair value and any gains and losses are recognized in statement of profit or loss as they arise. No financial assets are classified as FVTPL in these financial statements.

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:

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

- 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;
- 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 profit

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' 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 profit, 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

De recognition

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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. Ijara 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.

An intangible asset is recognised and classified as servicing rights under agency agreements in respect of any obligation to service the transferred lease whereby the servicing fee adequately covers the related costs. These assets are accounted for in accordance with accounting policy on intangible assets. The resulting gain or loss on the transaction is recognized in the statement of profit and loss and other comprehensive income under income from agency arrangements.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability

Financial liabilities are classified as measured at amortised cost using the effective yield method. Finance expense and foreign exchange gains and losses are recognised in profit or loss and other comprehensive income. Any gain or loss on derecognition is also recognised in profit or loss and other comprehensive income.

Fair values of financial instruments

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair values of financial instruments (continued)

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 the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

Offsetting of financial instruments

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

Statutory reserve

As required by Saudi Arabian Regulations for Companies and the Company's By-laws, 10% of the income for the year (after zakat and income tax and after deducting losses brought forward) should be transferred to the statutory reserve. This reserve is not available for distribution. As per the By-laws, the Company may resolve to discontinue such transfers when the reserve totals 30% of the capital. The statutory reserve can be transferred to offset the accumulated losses with the approval from the shareholders of the Company.

Accrued expenses and other payables

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

Provisions

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Zakat and income tax

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

Value Added Tax ("VAT")

The Company collects VAT from its customers for qualifying services provided, and make 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.

Deferred income tax

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

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

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, Company measures the lease liability by:

- Increasing the carrying amount to reflect interest on the lease liability.
- Reducing the carrying amount to reflect the lease payments made and;
- Re-measuring the carrying amount to reflect any re-assessment or lease modification.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for leases (continued)

The lease liability is measured at amortised 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.

Income / expenses recognition

Income from Ijara contracts and borrowing costs are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the gross carrying amount of the financial assets or the amortized cost of the financial liability.

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

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

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

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

Fee income

Fee income and expense that are integral part of the effective interest rate on a financial assets or financial liability are included in the effective interest rate.

Other fee income and expense are recognized as the related services are performed and received.

Borrowing costs

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 “Financial Instruments”. 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 IAS 23 “Borrowing costs”.

Other expenses

Expenses are recognized in the statement of profit or loss and other comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over the accounting period. Expenses are presented using the nature of expense method.

Employees' end of service 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.

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 of profit or loss:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine-settlements
- Net interest expense or income

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4. CRITICAL ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRS 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 judgment 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. The significant accounting estimate impacted by these forecasts and associated uncertainties are predominantly related to allowance for expected credit losses on Ijara receivables. The impact of the COVID-19 pandemic on estimates is discussed further in the relevant note of these financial statements.

Significant areas where management has used judgements, estimates and assumptions are as follows:

i) Allowance for expected credit losses on Ijara receivables

When determining whether the risk of default on Ijara receivables 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 and including forward looking information. In particular, management judgement is required in determining the ECL on Ijara receivables. These estimates are based on assumptions about a number of factors and actual results may differ, resulting future changes to the allowance for expected credit loss.

ii) Servicing rights under agency arrangements

An intangible asset is recognised for servicing rights under agency arrangements (acquired by the Company pursuant to sale of originated leases to third parties or as consideration for financing arrangements service) at the present value of net future cash flows under the agency arrangements. The net present value computation encompasses among others, estimates in respect of discount rate and fair value of services.

DEUTSCHE GULF FINANCE
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5. CASH AND CASH EQUIVALENTS

	<u>2021</u>	<u>2020</u>
Bank balances – current accounts	<u>14,406,536</u>	<u>9,404,961</u>
	<u>14,406,536</u>	<u>9,404,961</u>

This represents cash with banks who have investment grade credit ratings, as rated by the international rating agencies.

6. OTHER ASSETS

	<i>Note</i>	<u>2021</u>	<u>2020</u>
Advance paid under protest to ZATCA	<i>6(a)</i>	29,446,658	--
Financing to customers		28,562,486	25,445,779
Ijara mawsofa fi athemmah		25,919,690	16,469,701
Amount paid to ZATCA for years under assessment	<i>15(d)</i>	8,797,654	10,217,805
Service fee receivables		8,202,237	3,668,612
Value added tax recoverable		5,972,845	7,423,180
Prepaid expenses		1,597,420	1,533,596
Accelerated income tax payment		1,557,836	1,642,950
Receivables from Real Estate Development Fund		1,225,000	1,225,000
Staff receivables		248,578	102,767
Security deposits		28,979	28,979
		<u>111,559,383</u>	<u>67,758,369</u>

6(a) During the year, ZATCA issued an assessment on VAT returns for the period from January 2018 to December 2019 and claimed an additional VAT amount of SR 29.47 million excluding the penalties. The Company paid the amount during the amnesty period to avoid penalties and recorded the amount as receivable from ZATCA. The Company also filed an appeal clarifying its position on the assessment received from ZATCA. During the second half of 2021, ZATCA partially accepted the Company's appeal and revised its assessment by reducing the claim from SR 29.47 million to 17.09 million. The Company filed an appeal with the General Secretary of Tax Committee ("GSTC") against the revised claim and the appeal is still under review of GSTC.

7. IJARA RECEIVABLES, NET

	<u>2021</u>	<u>2020</u>
Gross Ijara receivables	3,722,052,210	3,484,308,166
Less: Unearned income	<u>(1,331,740,717)</u>	<u>(1,345,845,413)</u>
	2,390,311,493	2,138,462,753
Less: Allowance for expected credit losses	<u>(34,158,101)</u>	<u>(32,700,395)</u>
Ijara receivables, net	<u>2,356,153,392</u>	<u>2,105,762,358</u>

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7. IJARA RECEIVABLES, NET (CONTINUED)

7(a) The maturity of the Ijara receivables held as follows:

	2021			<u>Total</u>
	<u>Not later than one year</u>	<u>Later than one year but not later than five years</u>	<u>Later than five years</u>	
Gross Ijara receivables	388,328,741	1,416,686,673	1,917,036,796	3,722,052,210
Less: Unearned income	<u>(151,762,215)</u>	<u>(588,232,434)</u>	<u>(591,746,068)</u>	<u>(1,331,740,717)</u>
	<u>236,566,526</u>	<u>828,454,239</u>	<u>1,325,290,728</u>	<u>2,390,311,493</u>
Less: Allowance for expected credit losses				<u>(34,158,101)</u>
Ijara receivables, net				<u>2,356,153,392</u>

	2020			<u>Total</u>
	<u>Not later than one year</u>	<u>Later than one year but not later than five years</u>	<u>Later than five years</u>	
Gross Ijara receivables	313,903,741	1,073,040,618	2,097,363,807	3,484,308,166
Less: Unearned income	<u>(145,136,677)</u>	<u>(497,122,120)</u>	<u>(703,586,616)</u>	<u>(1,345,845,413)</u>
	<u>168,767,064</u>	<u>575,918,498</u>	<u>1,393,777,191</u>	<u>2,138,462,753</u>
Less: Allowance for expected credit losses				<u>(32,700,395)</u>
Ijara receivables, net				<u>2,105,762,358</u>

7(b) Expected credit loss allowance on Ijara receivables are as follows:

	2021			<u>Total</u>
	<u>12 Month ECL</u>	<u>Lifetime ECL (not credit impaired)</u>	<u>Lifetime ECL (credit impaired)</u>	
Opening balance	2,466,007	12,457,120	17,777,268	32,700,395
Transfer from 12 Month ECL	<u>(9,056,725)</u>	<u>7,278,593</u>	<u>1,778,132</u>	--
Transfer from Lifetime ECL (not credit impaired)	184,967	<u>(2,788,718)</u>	2,603,751	--
Transfer from Lifetime ECL (credit impaired)	18,113	1,581,874	<u>(1,599,987)</u>	--
Net re-measurement of loss allowance	8,957,375	<u>(2,882,633)</u>	18,714,261	24,789,003
Ijara receivables that have been derecognized during the year	<u>(540,582)</u>	<u>(1,052,868)</u>	<u>(1,236,212)</u>	<u>(2,829,662)</u>
New Ijara receivables originated during the year	1,363,115	4,236,100	532,655	6,131,870
Write-offs	--	--	<u>(26,633,505)</u>	<u>(26,633,505)</u>
Closing balance	<u>3,392,270</u>	<u>18,829,468</u>	<u>11,936,363</u>	<u>34,158,101</u>

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7. IJARA RECEIVABLES, NET (CONTINUED)

In 2021, new Ijara receivables amounting to SR 781.89 million (2020: 790.13 million) contributed to increase in loss allowance of SR 1.36 million (2020: SR 1.2 million) for stage I customers. Further, new Ijara receivables amounting to SR 58.68 million (2020: SR 50.93 million) contributed to increase in loss allowance of SR 4.24 million (2020: SR 2.8 million) for stage II customers. Furthermore, existing Ijara receivables amounting to SR 147.85 million (2020: SR 144.65 million) contributed to increase in loss allowance of SR 17.48 million (2020: SR 9.03 million) for credit impaired customers. Furthermore, the Company has a gross exposure of SR 1,736.51 million (2020: 1,585.27 million) in stage I, SR 447.21 million (2020: 318.53 million) in stage II and SR 206.59 million (2020: 234.66 million) in stage III classification.

	2020			Total
	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
Opening balance	4,075,284	7,335,815	18,251,350	29,662,449
Transfer from 12 Month ECL	(11,004,572)	7,618,798	3,385,774	--
Transfer from Lifetime ECL (not credit impaired)	74,518	(2,325,270)	2,250,752	--
Transfer from Lifetime ECL (credit impaired)	17,245	502,634	(519,879)	--
Net re-measurement of loss allowance	8,701,810	(2,938,672)	9,038,028	14,801,166
Ijara receivables that have been derecognized during the year	(641,888)	(513,981)	(1,795,951)	(2,951,820)
New Ijara receivables originated during the year	1,243,610	2,777,796	1,419,977	5,441,383
Write-offs	--	--	(14,252,783)	(14,252,783)
Closing balance	<u>2,466,007</u>	<u>12,457,120</u>	<u>17,777,268</u>	<u>32,700,395</u>

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2021 and that are still subject to the enforcement is SR 26.63 million (2020: SR 14.25 million).

7(c) Credit quality and expected credit loss allowance of Ijara receivables are as follows:

The days past due of customer which are not credit impaired as at 31 December are as follows:

	<u>2021</u>	<u>2020</u>
<i>1-30 days</i>	304,525,084	194,639,325
<i>31 – 60 days</i>	196,059,543	136,767,291
<i>61 – 90 days</i>	59,095,707	41,331,769
	<u>559,680,334</u>	<u>372,738,385</u>

The fair value of collateral, based on independent appraisals, held against credit impaired Ijara receivables as at 31 December 2021 amounted to SR 220.56 million (2020: SR 201.91 million).

The title deeds of the properties for which financing have been provided are held by Gulf Company for Acquisition ("the Affiliated Company"). The fair value of financial assets is based on transaction price at which the Company has affected the sales. These are not traded in an active market and consequently the fair value is dependent on secondary market transactions (note 20).

The Company in the ordinary course of financing holds collaterals as security to mitigate credit risk. These collaterals comprise of real estate. The collaterals are held against financing facilities and are managed against relevant exposures at their net realisable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary. Because of the Company's focus on credit worthiness of its customers, the Company does not routinely update the valuation of collateral held against all Ijara. Valuation of collateral is updated when the customer is put on the watch list and then the receivable is monitored more closely. The fair values of collateral based on the appraisal at the time of origination of the financial assets, held by the Company as at 31 December 2021 amounted to SR 4,925,542,731 (31 December 2020: 3,710,505,011).

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7. IJARA RECEIVABLES, NET (CONTINUED)

The below table stratifies credit exposure from Ijara receivables into ranges of receivable to value ratio. Ijara receivables to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property at the time of origination of the Ijara. The gross amount of financing used in calculating this ratio excludes unearned income.

	<u>2021</u>	<u>2020</u>
Less or equal to 50%	422,405,556	409,316,460
51-70%	640,064,660	506,021,560
71-85%	557,397,657	478,545,431
86-100%	770,443,620	744,579,302
Total exposure	<u>2,390,311,493</u>	<u>2,138,462,753</u>

8. SERVICING RIGHTS UNDER AGENCY ARRANGEMENTS

The Company enters into arrangements for servicing Ijara receivables on behalf of third parties. Such Ijara receivables represent instruments initially originated by the Company and subsequently sold to third party. The Company acts in the sole capacity of servicing agent represented by activities such as collection of Ijara receivables rentals on behalf of the principals. No credit risk is assumed by the Company throughout the period of servicing.

Assumptions and their sensitivity involved in the calculation of servicing rights under agency arrangements are as follows:

Discount rates

Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration Company's incremental borrowing rate.

Servicing costs

The Company assesses the cost of servicing based on the market price.

9. INTANGIBLE ASSETS

	<u>Software</u>	
	<u>2021</u>	<u>2020</u>
Cost:		
At the beginning of the year	7,217,241	6,575,250
Additions during the year	1,521,504	641,991
At the end of the year	<u>8,738,745</u>	<u>7,217,241</u>
Accumulated amortisation:		
At the beginning of the year	6,529,751	6,240,919
Charge for the year	506,698	288,832
At the end of the year	<u>7,036,449</u>	<u>6,529,751</u>
Net book value:		
At 31 December	<u>1,702,296</u>	687,490

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10. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	<u>Land</u>	<u>Building</u>	<u>Leasehold improvements</u>	<u>Furniture and fixtures</u>	<u>Equipment and motor vehicles</u>	<u>Work in progress ("WIP")*</u>	<u>Right-of-use assets**</u>	<u>Total 2021</u>
Cost:								
At the beginning of the year	12,250,000	12,508,579	1,378,470	4,432,706	9,567,146	3,983,236	2,512,082	46,632,219
Additions during the year	--	8,670	16,195	88,255	445,912	43,750	289,788	892,570
Transfer from CWIP	--	--	--	--	40,000	(40,000)	--	--
Disposals during the year	--	--	--	(62,856)	(1,157,554)	--	--	(1,220,410)
At the end of the year	12,250,000	12,517,249	1,394,665	4,458,105	8,895,504	3,986,986	2,801,870	46,304,379
Accumulated depreciation:								
At the beginning of the year	--	439,846	932,463	3,682,268	8,746,307	--	872,754	14,673,638
Charge for the year	--	357,611	124,621	209,070	464,556	--	474,839	1,630,697
Disposals during the year	--	--	--	(60,286)	(1,156,203)	--	--	(1,216,489)
At the end of the year	--	797,457	1,057,084	3,831,052	8,054,660	--	1,347,593	15,087,846
Net book value:								
At 31 December 2021	12,250,000	11,719,792	337,581	627,053	840,844	3,986,986	1,454,277	31,216,533

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10. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

	<u>Land</u>	<u>Building</u>	<u>Leasehold improvements</u>	<u>Furniture and fixtures</u>	<u>Equipment and motor vehicles</u>	<u>Work in progress ("WIP") *</u>	<u>Right-of-use assets**</u>	<u>Total 2020</u>
<i>Cost:</i>								
At the beginning of the year	12,250,000	12,384,382	1,352,360	4,347,017	8,893,998	2,428,152	2,512,082	44,167,991
Impact of adoption of IFRS 16	--	80,247	15,675	21,197	624,648	1,722,461	--	2,464,228
Additions during the year	--	43,950	10,435	64,492	48,500	(167,377)	--	--
Transfer from WIP	--	--	--	--	--	--	--	--
At the end of the year	12,250,000	12,508,579	1,378,470	4,432,706	9,567,146	3,983,236	2,512,082	46,632,219
<i>Accumulated depreciation:</i>								
At the beginning of the year	--	84,340	814,090	3,495,480	8,396,054	--	452,677	13,242,641
Charge for the year	--	355,506	118,373	186,788	350,253	--	420,077	1,430,997
Disposals during the year	--	--	--	--	--	--	--	--
At the end of the year	--	439,846	932,463	3,682,268	8,746,307	--	872,754	14,673,638
<i>Net book value:</i>								
At 31 December 2020	12,250,000	12,068,733	446,007	750,438	820,839	3,983,236	1,639,328	31,958,581

* Work in progress mainly relates to some part of the Riyadh office building which is under construction.

** Right-of-use assets comprise of rental premises occupied by the Company's branches.

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11. FINANCING FACILITIES

These represent financing which are Sharia-compliant facilities from local financial institutions and Saudi Real Estate Re-finance Company (“SRC”) which are secured by assignment of proceeds from certain financial assets. The movement in the financing facilities for the years ended 31 December is as follows:

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year		1,457,109,849	968,850,391
Proceeds / rollover including financial charges during the year		1,085,148,972	4,096,918,017
Repayment during the year		(802,779,935)	(3,599,769,437)
Gain on deferment, net		--	(8,889,122)
Balance at the end of the year		<u>1,739,478,886</u>	<u>1,457,109,849</u>

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Accrued and other expenses		30,715,939	30,590,946
Instalments collected from sold Ijara receivables	12(a)	14,749,036	12,545,216
Provision for VAT	6(a)	11,500,000	2,653,430
Payable to Ministry of Housing		11,237,158	10,041,408
Amount received from customers	12(b)	10,222,460	11,732,574
SAMA deposit, net	22	10,122,402	--
Lease liabilities	12(c)	1,250,179	1,687,137
Advances from customers – Ijara mawsofa fi athemmah		2,925,364	195,689
		<u>92,722,538</u>	<u>69,446,400</u>

12(a) This represents amount of instalments collected by the Company on behalf of buyers of previously sold financial assets.

12(b) This primarily represents down payment received from customers and payable to customers related to excess amount received for early termination settlements and instalments.

12(c) This represents amount of lease liability as per IFRS 16 for the rented offices of the Company. Following are the classification and maturity analysis of lease liabilities into current and non-current:

	<u>2021</u>	<u>2020</u>
Current	155,585	436,958
Non-current	1,094,594	1,250,179
	<u>1,250,179</u>	<u>1,687,137</u>

Maturity analysis (discounted)

	<u>2021</u>	<u>2020</u>
Not later than 1 year	155,585	436,958
Later than 1 year and not later than 5 years	844,509	761,684
Later than 5 years	250,085	488,495
	<u>1,250,179</u>	<u>1,687,137</u>

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13. EMPLOYEES' BENEFITS AND COMPENSATION

	For the year ended 31 December	
	2021	2020
Employees' salaries and benefits	36,379,594	38,803,232
Employees' health insurance	1,598,416	2,158,316
Others	2,047,651	1,988,714
	40,025,661	42,950,262

14. OTHER EXPENSES

	<i>Note</i>	For the year ended 31 December	
		2021	2020
Provision for VAT	6(a)	8,846,570	2,653,430
Processing and marketing expenses		7,853,473	6,423,276
Outsourcing		3,719,467	2,355,293
Professional fees		3,384,758	4,609,534
Board fees		2,547,250	2,278,000
Takaful expenses		2,404,448	3,643,389
Others		7,299,539	4,610,602
		36,055,505	26,573,524

15. ZAKAT AND INCOME TAX

15(a) Deferred tax asset

	For the year ended 31 December	
	2021	2020
Opening balance	3,753,049	3,347,230
Origination of temporary difference	97,105	405,819
Closing	3,850,154	3,753,049

The deferred tax arises on end of service benefits, allowance for expected credit losses on Ijara receivables, unused losses and depreciation of property and equipment.

<u>2021</u>	<u>Opening deferred tax</u>	<u>Recognised in P&L</u>	<u>Closing deferred tax</u>
<i>Deductible temporary difference</i>			
Allowances for expected credit losses	2,074,686	(58,314)	2,016,372
Carry forward losses	1,816,581	(154,359)	1,662,222
End of service benefit	268,665	7,572	276,237
Total deductible temporary differences	4,159,932	(205,101)	3,954,831
<i>Taxable temporary difference</i>			
Depreciation of property and equipment	(406,883)	302,206	(104,677)
Total taxable temporary differences	(406,883)	302,206	(104,677)
Net of deductible and taxable temporary difference	3,753,049	97,105	3,850,154

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15. ZAKAT AND INCOME TAX (CONTINUED)

<u>2020</u>	<u>Opening</u> <u>deferred tax</u>	<u>Recognised in</u> <u>P&L</u>	<u>Closing</u> <u>deferred tax</u>
<i>Deductible temporary difference</i>			
Allowances for expected credit losses	1,290,391	784,295	2,074,686
Carry forward losses	2,158,130	(341,549)	1,816,581
End of service benefit	210,300	58,365	268,665
Total deductible temporary differences	<u>3,658,821</u>	<u>501,111</u>	<u>4,159,932</u>
<i>Taxable temporary difference</i>			
Depreciation of property and equipment	<u>(311,591)</u>	<u>(95,292)</u>	<u>(406,883)</u>
Total taxable temporary differences	<u>(311,591)</u>	<u>(95,292)</u>	<u>(406,883)</u>
Net of deductible and taxable temporary difference	<u>3,347,230</u>	<u>405,819</u>	<u>3,753,049</u>

15(b) The movement in zakat and income tax is as follow:

	<u>For the year ended 31 December 2021</u>		
	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>
Balance at the beginning of the year	8,171,705	5,101,393	13,273,098
Charge for the year (<i>excluding deferred tax</i>)	5,355,967	4,512,898	9,868,865
Reversal of zakat liability during the year	(1,420,151)	--	(1,420,151)
Payments made during the year	(5,657,673)	(3,115,673)	(8,773,346)
Balance as at end of the year	<u>6,449,848</u>	<u>6,498,618</u>	<u>12,948,466</u>
<u>For the year ended 31 December 2020</u>			
	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>
Balance at the beginning of the year	7,788,713	3,338,551	11,127,264
Charge for the year (<i>excluding deferred tax</i>)	4,811,468	3,953,441	8,764,909
Payments made during the year	(4,428,476)	(2,190,599)	(6,619,075)
Balance as at end of the year	<u>8,171,705</u>	<u>5,101,393</u>	<u>13,273,098</u>

15(c) Zakat and income tax expense

Breakup of zakat and income tax expense in the statement of comprehensive income is as follows:

	<i>Note</i>	<u>For the year ended 31</u> <u>December</u>	
		<u>2021</u>	2020
Charge / (reversal) for the year:			
- current tax and zakat for the year	15(b)	9,868,865	8,764,909
- deferred tax for the year	15(a)	<u>(97,105)</u>	<u>(405,819)</u>
Charge for the year		<u>9,771,760</u>	<u>8,359,090</u>

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15. ZAKAT AND INCOME TAX (CONTINUED)

15(d) Status of assessments:

Zakat and income tax declaration for all the years up to 2020 have been filed with the ZATCA and acknowledgement certificates have been obtained.

2010

The Company has made payment of SR 3.7 million to ZATCA as part of appeal process in relation to assessment year 2010. The Company has appealed against this assessment before the Higher Appeal Committee ("HAC") on "Ijara receivables" and Withholding tax ("WHT"). The HAC resolution was in favor of the Company. However, ZATCA issued the amended assessment whereby ZATCA demanded the WHT and applicable delay penalty (i.e. ZATCA did not reflect the HAC resolution with respect to this point). The Company filed a rectification request and the ZATCA replied that they transferred the case to the Board of Grievance. The assessment was finalized during the year with the final assessment amount of SR 2.3 million, whereas the amount of SR 1.4 million can be used against any future liabilities with ZATCA.

2011 to 2012

The Company has made payment of SR 6.5 million to ZATCA as part of appeal process in relation to assessment years 2011-2012. During the year ended 31 December 2019, the Company signed the settlement agreement with ZATCA in respect of assessment from 2011 to 2012. Pursuant to this settlement agreement, the Company was liable to pay SR 0.9 million, which was paid by the Company. The Company is awaiting refund of SR 6.5 million paid as part of the appeal process.

2014 to 2017

During the year ended 31 December 2020, the Company signed the settlement agreement with ZATCA in respect of assessment from 2014 to 2017. Pursuant to this settlement agreement, the Company is liable to pay SR 4.3 million in six instalments. Out of these instalments, the Company has paid four instalments total amounting SR 2.9 million. The remaining provision of SR 1.4 million is included in these financial statements.

16. RELATED PARTIES TRANSACTIONS AND BALANCES

The Company carries out transactions with related parties who are defined as related parties in the International Accounting Standard – IAS 24 "Related party Disclosures" in the ordinary course of its business.

Key Management Personnel ("KMP") are those having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Company's KMP includes selected key employees who meet the above criteria.

The related party of the Company include the shareholders, affiliated company, board of directors and key management personnel. In the ordinary course of business, the Company enters into transactions with its related parties, which are based on prices and contract term approved by the Company's management.

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16. RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

The following are the details of significant related party transactions during the years ended 31 December:

<u>Related party</u>	<u>Nature of transaction</u>	<u>Note</u>	<u>2021</u>	<u>2020</u>
Board of directors	Board fees		2,547,250	2,278,000
Key management personnel	Short-term employment benefits: - Remuneration		7,261,182	7,478,098
	Employees' end of service benefits		146,350	195,006
Gulf Company for Acquisition – An affiliated company	Service fee	16(c)	45,000	45,000

The following related party balances are included in the statement of financial position as at 31 December:

<u>Related party</u>	<u>Nature of balance</u>	<u>Note</u>	<u>2021</u>	<u>2020</u>
Board of directors	Board fees payable		2,284,373	1,905,000
Key management personnel	Remuneration payable		2,780,000	2,080,000
	Employees' end of service benefits		721,617	575,267
Gulf Company for Acquisition – An affiliated company	Due from an affiliated company:			
	- Loan	16(a)	3,953,220	3,953,220
	- Others	16(b)	203,160	152,549
			4,156,380	4,105,769
	Due to an affiliated company:			
	- Service fee payable	16(c)	559,638	514,638

16(a) This represents a profit-free loan to the Affiliated Company which is repayable on demand with no fixed repayment date. This loan is categorised in stage 1.

16(b) This represents expenses paid by the Company on behalf of the Affiliated Company and cheque received in the name of the Affiliated Company on account of early settlement of Ijara receivables of the Company, as the title deeds are in the name of the Affiliated Company.

16(c) This represents service fee charged by the Affiliated Company in relation to holding customers title deeds on behalf of the Company.

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17. SHARE CAPITAL

As at 31 December 2021, the authorised, issued and fully paid-up share capital of the Company was divided into 57,500,000 shares (31 December 2020: 57,500,000 shares) of SR 10 each.

18. STATUTORY RESERVE

In accordance with the Company's By-laws, the Company is required to transfer at least 10% of net income to a statutory reserve until such reserve equals 30% of its paid up capital as a minimum. This reserve is not available for distribution.

19. RISK MANAGEMENT

Financial instruments carried on the statement of financial position comprise cash and cash equivalents, Ijara receivables, other receivables, financial instrument held at FVOCI, due from an affiliated company, financing facilities, due to an affiliated company, dividend payable, accounts and other payables and other liabilities.

The Company's activities expose it to a variety of financial risks: market risk (including special commission rate risks), credit risk, liquidity risk and operational risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out under policies approved by the Board of Directors. The oversight of risk management is done by the Credit and Risk Committee established by the Company's Board of Directors.

There are no financial instruments which are off-set in these financial statements. The Company has exposure to the following risks from its financial instruments:

(i) *Special commission rate risk*

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market special commission rates. The Company is subject to variations in the fair value of its financial instruments and the net special commission income arising from changes to special commission rate on its real estate financing and financing facilities, which are generally priced on SIBOR.

The sensitivity to a +/- 15 basis points change in special commission rates on real estate financing, with all other variables constant on the Company's income for the year is SR +/- 3,534,009 (2020: SR +/- 3,158,644).

The sensitivity to a +/- 15 basis points change in special commission rates on financing facilities, with all other variables constant on the Company's income for the year is SR -/+ 2,609,218 (2020: SR -/+ 2,185,665).

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19. RISK MANAGEMENT (CONTINUED)

(ii) *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations and arises principally from the Company's Ijara receivables. The Company has established procedures to manage credit exposure including evaluation of customers' credit worthiness, formal credit approvals, obtaining collateral such as title of assets.

Furthermore, all the Ijara receivables are allowed for the maximum term of 360 months. As per such policy, an Ijara is not granted unless the borrower meets certain basic requirements, which are set out below:

- Age limit at the time of funding and contractual maturity
- Income earned
- Debt to income ratio
- Maximum finance to value ratio

The Company monitors its real estate financing on a weekly basis. Furthermore, all real estate financing are backed by the legal titles of those properties which are registered in the name of the Affiliated Company.

In case of real estate financing past due for six months, the Company takes legal actions against the borrower and collects the receivable by selling the property against which the financing is provided. The Company has had proven success in completing this process and recovering its dues.

Modified financial assets

The contractual terms of an Ijara may be modified for a number of reasons, including changing market conditions and other factors not related to credit deterioration of the customer. An existing Ijara whose terms have been modified may be derecognized and the renegotiated Ijara recognized as a new Ijara at fair value in accordance with the accounting policy set out in note 4.

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:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

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

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19. RISK MANAGEMENT (CONTINUED)

(iii) *Credit risk (continued)*

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. 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/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

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 the Company experts and consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by International Monetary Fund.

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. The other scenarios represent more optimistic and more pessimistic outcomes.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2021 included the following key indicators.

31 December 2021		31 December 2020	
Economic indicators	Weightages	Economic indicators	Weightages
Gross domestic product	Upside 20% Base case 50% Downside 30%	Gross domestic product	Upside 20% Base case 50% Downside 30%
Brent oil		Brent oil	
Government Spending		Government Spending	
Credit Growth		Credit Growth	
Unemployment Rate		Unemployment Rate	

The ECL computed under three different scenarios before applying the weightages as used by the Company is as follows:

	<u>2021</u>	<u>2020</u>
100% upside	34,344,227	30,827,393
100% base case	35,621,589	32,454,009
100% downside	36,966,094	34,359,704

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19. RISK MANAGEMENT (CONTINUED)

(iii) Credit risk (continued)

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	14,406,536	9,404,961
Ijara receivable	2,356,153,392	2,105,762,358
Other receivables	99,606,473	54,364,018
Due from an affiliated company	4,156,380	4,105,769
	2,474,322,781	2,173,637,106

Credit quality by class of financial assets

The Company manages the credit quality of financial assets based on its internal credit policy. The credit quality of real estate financing is detailed in note 11(c).

Financial assets pledged as collateral

Financial assets are pledged as collateral for the purpose of financing facilities under terms that are usual to enter into agreement. At 31 December 2021, the pledged Ijara receivables were SR 2,119,230,986 (2020: SR 1,845,198,336).

Concentration of credit risk

The Company monitors the concentration of credit risk by sectors. The Company's Ijara receivables exposure primarily relates to private sector.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that bank facilities are available.

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

	<u>Less than 3 months</u>	<u>3-12 Months</u>	<u>1-5 Years</u>	<u>Total</u>
2021				
Financing facilities	58,085,196	152,295,035	1,543,373,456	1,753,753,687
Dividend payable	--	395,322	--	395,322
Other liabilities	24,237,174	12,808,675	11,346,702	48,392,551
Accounts and other payables	934,524	--	--	934,524
Due to an affiliated company	--	--	559,638	559,638
Total	83,256,894	165,499,032	1,555,279,796	1,804,035,722

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19. RISK MANAGEMENT (CONTINUED)

iv) Liquidity risk (continued)

The Company's financial liabilities comprise financing facilities amounting to SR 1,739,478,886 as of 31 December 2021 (2020: SR 1,457,109,849). For amount due to an affiliated company, the Company has an implicit understanding with the affiliated company that their respective payable balance would be repaid at the Company's discretion based on usage and requirements of funds.

<u>2020</u>	Less than 3 <u>months</u>	3-12 <u>months</u>	1-5 <u>years</u>	<u>Total</u>
Financing facilities	19,429,635	1,173,665,605	284,013,042	1,477,108,282
Dividend Payable	--	10,763,638	--	10,763,638
Other liabilities	24,164,121	10,850,554	1,434,300	36,448,975
Accounts and other payables	900,672	--	--	900,672
Due to an affiliated company	--	--	514,638	514,638
Total	44,494,428	1,195,279,797	285,961,980	1,525,736,205

The table below shows an analysis of financial assets and financial liabilities according to when they are estimated to be recovered or settled.

<u>2021</u>	<u>Less than 12 months</u>	<u>More than 12 months</u>	<u>Total</u>
Cash and cash equivalents	14,287,388	--	14,287,388
Other receivables	99,606,473	--	99,606,473
Ijara receivable, net	236,566,526	2,119,586,866	2,356,153,392
Financial asset held at fair value through other comprehensive income-equity instrument	--	892,850	892,850
Due from an affiliated company	203,160	3,953,220	4,156,380
Total assets	350,663,547	2,124,432,936	2,474,203,633
Financing facilities	196,105,430	1,543,373,457	1,739,478,887
Dividend payable	395,322	--	395,322
Due to an affiliated company	--	559,638	559,638
Account and other payables	934,524	--	934,524
Other liabilities	36,991,434	11,216,996	48,208,430
Total liabilities	234,426,710	1,555,150,091	1,789,576,801
Net	116,236,837	569,282,845	684,626,832

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19. RISK MANAGEMENT (CONTINUED)

iv) Liquidity risk (continued)

<u>2020</u>	<u>Less than 12 months</u>	<u>More than 12 months</u>	<u>Total</u>
Cash and cash equivalents	9,404,961	--	9,404,961
Other receivables	54,364,018	--	54,364,018
Ijara receivable, net	168,767,064	1,936,995,294	2,105,762,358
Financial asset held at fair value through other comprehensive income-equity instrument	--	892,850	892,850
Due from an affiliated company	152,549	3,953,220	4,105,769
Total assets	232,688,592	1,941,841,364	2,174,529,956
Financing facilities	658,584,118	798,525,731	1,457,109,849
Dividend payable	--	10,763,638	10,763,638
Due to an affiliated company	--	514,638	514,638
Account and other payables	900,672	--	900,672
Other liabilities	34,951,845	1,250,179	36,202,024
Total liabilities	694,436,635	811,054,186	1,505,490,821
Net	(461,748,043)	1,130,787,178	669,039,135

The maturity profiles are based on the contractual maturity and estimated timing of net cash inflows and outflows from the recognized assets and liabilities respectively. The Company sold certain Ijara receivables amounted to SR 386 million in 2021 (2020: SR 159 million), with a right to collect instalments on behalf of the principal for the servicing fees.

20. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets consist of cash and cash equivalents, investments at FVOCI, Ijara receivables and due from an affiliated company, other receivable. Financial liabilities consist of due to affiliated companies, financing facilities, dividend payable, accounts and other payables and other liabilities.

Fair value hierarchy

The table below presents the financial instruments at their fair values as of 31 December based on the fair value hierarchy:

	2021				
	<u>Carrying value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Ijara receivables, net	2,356,153,392	--	--	2,410,624,672	2,410,624,672
Financial asset held at FVOCI - equity instrument	892,850	--	--	892,850	892,850
Total	2,357,046,242	--	--	2,411,517,522	2,411,517,522

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20. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	2020				Total
	Carrying value	Level 1	Level 2	Level 3	
Ijara receivables, net	2,105,762,358	--	--	2,207,808,927	2,207,808,927
Financial asset held at FVOCI - equity instrument	892,850	--	--	892,850	892,850
Total	2,106,655,208	--	--	2,208,701,777	2,208,701,777

The valuation of Ijara receivables is estimated using contractual cash flows adjusted by ECL and discounted at latest variable yield, which is the contracted profit rate for recent transactions.

Management assessed that the carrying amount of other financial assets and financial liabilities largely approximate the fair value due to either short-term maturities on those instruments or repricing of those instruments and these financial instruments are classified as level 3.

There have been no transfers to and from any levels during the year.

21. COMMITMENTS

The Company has outstanding irrevocable commitment for providing Ijara financing to customers for specified real estate property amounted to SR 1,912,474 (2020: SR 5,998,500). Further, the Company has outstanding irrevocable commitment to developers for the construction of residential units for Ijara mawsofa fi athemmah project amounted to SR 4,790,729 (2020: 12,301,892).

22. SAMA SUPPORT PROGRAMS AND INITIATIVES

The Coronavirus (“COVID-19”) pandemic continues to disrupt global markets as many geographies are experiencing issues due to identification of multiple new variants of this infection. Despite having previously controlled the outbreak through aggressive precautionary measures the Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises (“MSME”) as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. As part of the deferred payments program launched by SAMA in March 2020 and with further extensions to the program till March 2022 announced subsequently, the Company deferred payments and extended maturities on lending facilities to all eligible MSMEs. This resulted in total cumulative modification losses, net of unwinding to date amounting to SAR 7.55 million (31 December 2020: SR 7.82 million).

The payment reliefs were considered as short-term liquidity support to address borrowers’ potential cash flow shortages. Since July 2021 this support only applied to those MSMEs that were still affected by the COVID-19 precautionary measures in line with guidance issued by SAMA in this regard. The accounting impact of the 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.

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22. SAMA SUPPORT PROGRAMS AND INITIATIVES (CONTINUED)

Further during the year, the Company received SR 10.47 million profit free deposit with maturity date of 30 March 2023 from SAMA. Management has 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 subsidised funding rate has been accounted for on systematic basis, in accordance with government grant accounting requirements. During the year ended 31 December 2021, a total of SR 0.41 million (31 December 2020: SAR nil) has been recognised in the statement of income as deferred grant income with respect to related profit free deposit. Management has exercised certain judgements in the recognition and measurement of grant income recognised during the year ended 31 December 2021.

23. DIVIDEND PAYABLE

The shareholders in the General Assembly Meeting held on 2 April 2021 approved the cash dividend for the year ended 31 December 2020 of SR 0.5 per share. Dividend amounting to SR 28.75 million has been declared and approved, of which SR 28.55 million has been paid during the year.

24. SUBSEQUENT EVENT

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

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2021 were approved by the Board of Directors on 21 Rajab 1443H (Corresponding to 22 February 2022).