**BIDAYA HOME FINANCE COMPANY**
(A Saudi Closed Joint Stock Company)
**FINANCIAL STATEMENTS**
**For the year ended 31 December 2021**
together with the
**INDEPENDENT AUDITOR'S REPORT**

**KPMG Professional Services**
Riyadh Front, Airport Road
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Headquarters

Commercial Registration No. 1010425494

**كي بي إم جي للاستشارات المهنية**
واجهة الرياض، طريق المطار
صندوق بريد 92876
الرياض 11663
المملكة العربية السعودية
المركز الرئيسي

سجل تجاري رقم 1010425494

# Independent Auditor's Report

## To the shareholders of Bidaya Home Finance Company

## Opinion

We have audited the financial statements of Bidaya Home Finance Company (the "Company"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and the 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 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 this 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 IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies, the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

# Independent Auditor's Report

To the shareholders of Bidaya Home Finance Company (continued)

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with those charged with governance regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Bidaya Home Finance Company (the "Company").

**For KPMG Professional Services**

**Kholoud A. Mousa Altambakti**
License No: 421

03 Shaban 1443H
Corresponding to: 06 March 2022

**BIDAYA HOME FINANCE COMPANY**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF FINANCIAL POSITION**
As at 31 December 2021
*(Saudi Arabian Riyals in '000)*

| | Notes | 2021 | 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash at banks | 4 | **50,084** | 25,667 |
| Investments held at fair value through other comprehensive income ("FVOCI") | | **893** | 893 |
| Ijara receivables, net | 5 | **2,482,124** | 2,379,075 |
| Deposits, prepayments and other receivables, net | 6 | **82,876** | 112,085 |
| Right-of-use assets | | **6,349** | 7,889 |
| Intangible assets, net | 7 | **8,776** | 7,218 |
| Property and equipment, net | 8 | **4,873** | 5,671 |
| **Total assets** | | **2,635,975** | 2,538,498 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Financing facilities - secured | 9 | **1,036,000** | 1,031,000 |
| Sukuk | 10 | **550,000** | 300,000 |
| Lease liabilities | | **5,904** | 7,436 |
| Accrued expenses and other current liabilities | 11 | **137,509** | 324,996 |
| Accrued Zakat | 12 | **948** | 916 |
| Provision for employees' end of service benefits | | **4,400** | 2,918 |
| **Total liabilities** | | **1,734,761** | 1,667,266 |
| Share capital | 13 | **900,000** | 900,000 |
| Statutory reserves | | **6,586** | 3,588 |
| Accumulated losses | | **(5,372)** | (32,356) |
| **Total Shareholders' equity** | | **901,214** | 871,232 |
| **Total liabilities and shareholders' equity** | | **2,635,975** | 2,538,498 |

The attached notes 1 to 26 form an integral part of these financial statements.

**BIDAYA HOME FINANCE COMPANY**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
For the year ended 31 December 2021
*(Saudi Arabian Riyals in '000)*

| | *Notes* | **2021** | 2020 |
|---|---|---|---|
| **REVENUE** | | | |
| Ijara income | | **150,765** | 138,106 |
| Fee income | | **7,546** | 7,902 |
| Servicing income | | **11,674** | 8,532 |
| Gain on sale of portfolio | | **11,173** | 2,453 |
| **Total revenue** | | **181,158** | 156,993 |
| | | | |
| **OPERATING EXPENSES** | | | |
| General and administrative expenses | *14* | **(69,662)** | (63,828) |
| Selling and marketing expenses | *15* | **(14,382)** | (12,760) |
| Depreciation | | **(3,249)** | (3,542) |
| Amortization | *7* | **(2,309)** | (3,206) |
| Finance charges | | **(48,118)** | (42,462) |
| Reversal of provision for penalties | | **--** | 6,000 |
| **Total operating expense for the year** | | **(137,720)** | (119,798) |
| Impairment charge for credit and other losses | | **(10,804)** | (13,579) |
| **Operating income for the year** | | **32,634** | 23,616 |
| Profit on murahaba deposits | | **7** | 48 |
| Gain arising on modification of terms of financial facilities | | **1,052** | 4,993 |
| **Net profit for the year before Zakat** | | **33,693** | 28,657 |
| Zakat charge for the year | *12* | **(3,711)** | (3,629) |
| **Net profit for the year after Zakat** | | **29,982** | 25,028 |
| | | | |
| Other comprehensive income | | **--** | **--** |
| | | | |
| **Total comprehensive income for the year** | | **29,982** | 25,028 |
| | | | |
| **Earnings per share – basic and diluted (in SR)** | *16* | **0.33** | 0.28 |

The attached notes 1 to 26 form an integral part of these financial statements.

**BIDAYA HOME FINANCE**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
For the year ended 31 December 2021
(Saudi Arabian Riyals in '000)

| | Share capital | Statutory reserve | Accumulated losses | Total |
|---|---|---|---|---|
| Balance at 1 January 2021 | **900,000** | **3,588** | **(32,356)** | **871,232** |
| Net profit for the year after zakat | **--** | **--** | **29,982** | **29,982** |
| Other comprehensive income | **--** | **--** | **--** | **--** |
| Total comprehensive income for the year | **--** | **--** | **29,982** | **29,982** |
| Transfer to statutory reserve | **--** | **2,998** | **(2,998)** | **--** |
| **Balance at 31 December 2021** | **900,000** | **6,586** | **(5,372)** | **901,214** |
| | | | | |
| Balance at 1 January 2020 | 900,000 | 1,085 | (54,881) | 846,204 |
| Net profit for the year after zakat | -- | -- | 25,028 | 25,028 |
| Other comprehensive income | -- | -- | -- | -- |
| Total comprehensive income for the year | -- | -- | 25,028 | 25,028 |
| Transfer to statutory reserve | -- | 2,503 | (2,503) | -- |
| **Balance at 31 December 2020** | 900,000 | 3,588 | (32,356) | 871,232 |

The attached notes 1 to 26 form an integral part of these financial statements.

**BIDAYA HOME FINANCE COMPANY**
(A Saudi Closed Joint Stock Company)
**STATEMENT OF CASH FLOW**
For the year ended 31 December 2021
(Saudi Arabian Riyals in '000)

| | Notes | 2021 | 2020 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net profit for the year before Zakat | | **33,693** | 28,657 |
| *Non-cash adjustments to reconcile net profit for the year before zakat to net cash used in operating activities:* | | | |
| Depreciation | | **3,249** | 3,542 |
| Amortization | 7 | **2,309** | 3,206 |
| Finance charges | | **48,118** | 42,462 |
| Provision for employees' end of service benefits | | **1,782** | 761 |
| Impairment charge for credit losses | | **10,804** | 13,579 |
| Income from time deposits | | **(7)** | (48) |
| Gain on sale of portfolio | | **(11,173)** | (2,453) |
| Gain on modification of terms of financial facilities | | **(1,052)** | (4,993) |
| | | **87,723** | 84,713 |
| *(Increase) / decrease in operating assets* | | | |
| Ijara receivables | | **(486,988)** | (799,454) |
| Deposits, prepayments and other receivables | | **25,709** | (526) |
| *Decrease in operating liabilities* | | | |
| Accrued expenses and other current liabilities | | **(187,488)** | (72,047) |
| | | **(561,044)** | (787,314) |
| Employees' end of service benefits paid | | **(300)** | (370) |
| Finance charges paid | | **(47,066)** | (37,483) |
| Profit on time deposits received | | **7** | 48 |
| Zakat paid | 12 | **(3,679)** | -- |
| **Net cash used in operating activities** | | **(612,082)** | (825,119) |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | | **(910)** | (836) |
| Purchase of intangible assets | | **(3,867)** | (1,584) |
| Purchase of investments held at FVTPL | | **(376,000)** | (201,800) |
| Proceeds from sale of investments held at FVTPL | | **376,000** | 201,800 |
| **Net cash used in investing activities** | | **(4,777)** | (2,420) |
| **Cash flows from financing activities** | | | |
| Proceeds from sale of portfolio | | **387,808** | 196,821 |
| Payment of lease liabilities | | **(1,532)** | (2,475) |
| Proceeds from issuance of sukuk | | **250,000** | -- |
| Payment of sukuk | | **--** | (250,000) |
| Proceeds from financing facilities – secured | 9 | **1,480,000** | 1,239,000 |
| Payment of financing facilities - secured | | **(1,475,000)** | (708,000) |
| **Net cash generated from financing activities** | | **641,276** | 475,346 |
| **Net increase / (decrease) in cash and cash equivalents** | | **24,417** | (352,193) |
| Cash and cash equivalents at beginning of the year | | **25,667** | 377,860 |
| **Cash and cash equivalents at end of the year** | | **50,084** | 25,667 |
| **Supplemental non-cash information** | | | |
| Right of use assets | | **7,880** | 8,271 |
| Lease liabilities | | **6,186** | 8,271 |

The attached notes 1 to 26 form an integral part of these financial statements.

## 1. THE COMPANY AND THE NATURE OF OPERATIONS

Bidaya Home Finance Company (the "Company") is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 7009175717 issued in Riyadh on 25 Jumada II 1436H (corresponding to 14 April 2015). The Company was granted a full license by the Saudi Central Bank ("SAMA") to operate as a mortgage finance company vide license number 41/ ع ش/201512 dated 3 Rabi I 1437H (corresponding to 14 December 2015).

The objectives of the Company are to provide home financing to consumers for the purchase of homes (new homes, ready homes and off plan construction homes) and providing finance to home owners against security of their homes.

The registered office of the Company with its postal address is as follows:

Bidaya Home Finance Company
20th Floor of Ibdaa Tower
King Fahad Road
P.O. Box 93898
Riyadh 11683
Kingdom of Saudi Arabia

## 2. BASIS OF PREPARATION

### *a) Statement of compliance*

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (hereinafter referred to as "IFRS as endorsed in KSA").

### *b) Basis of measurement*

These financial statements have been prepared on a going concern basis under the historical cost convention except for Investment held at fair value through other comprehensive income ("FVOCI") which is carried at fair value.

### *c) Going concern*

In making the going concern assessment, the Company has considered a wide range of information relating to present and future projections of profitability, cash flows and other capital resources etc.

### *d) Functional and presentation currency*

These financial statements are presented in Saudi Arabian Riyals ("SR"), which is the Company's functional currency. Except as otherwise indicated, the financial information presented in SR has been rounded-off to the nearest thousand.

### *e) Order of liquidity*

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

An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note

## 2. BASIS OF PREPARATION (CONTINUED)

### *f) Critical accounting judgements, estimates and assumptions*

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

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are experiencing issues due to identification of multiple new variants of this infections. 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

The Company continues to evaluate the current macroeconomic situation including the impact of the pandemic and resultant government and SAMA support measures, such as payment holidays and other mitigating packages, have had on the financing portfolio along with conducting review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of financings, where required. The Company has also made updates within its ECL model to refine the application of the staging criteria due to SICR on affected customers to be able to differentiate and reflect appropriately in its models. The significant accounting estimate impacted by these forecasts and associated uncertainties is predominantly related to expected credit losses. The impact of the COVID-19 pandemic on this estimate is discussed further.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

*i. Impairment losses on financial assets*

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

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

- The Company uses internal roll rate methodology for the entire portfolio to assign the PDs
- LGD determination by applying haircut on the collaterals considering difference between forced sale value and fair market value, time of realization, cost of realization and current effective profit rate. This haircut is applied as practical expedient as per the best practice
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- Development of ECL models, including the various formulas and the choice of inputs

## 2. BASIS OF PREPARATION (CONTINUED)

### *f) Critical accounting judgements, estimates and assumptions (continued)*

*i. Impairment losses on financial assets (continued)*

- Determination of associations between macroeconomic scenarios and economic inputs, such as oil prices
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model

*ii. Fee income*

The Company offers a range of services to individuals and third parties, including application packaging, agency origination and receivables collection and administration. Fee income and its associated expense is recognized in profit and loss immediately when the service which gives rise to such fees is provided.

Fee income where the fee is an integral part of the yield on the receivable in relation to which it is charged is deferred and amortised. These fees are amortised over the period during which such yield is expected to accrue.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a. Amendments to Existing Account Standards

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.

**Amendments to IFRS 7, IFRS 4 and IFRS 16 Profit Rate Benchmark Reform – Phase 2:**

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from Inter-Bank Offer Rate ("IBOR").

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform Whilst adoption is not mandatory for December 2021 year ends, earlier application is permitted.

**Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions:**

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *b) Cash and cash equivalents*

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, bank balances and time deposit placement with original maturity of three months or less which are subject to insignificant risk of changes in their fair value.

### *c) Ijara receivables*

Ijara receivables represent assets transferred under Finance Islamic lease agreements, 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 rate of return.

### *d) Property and equipment*

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. Expenditure for repair and maintenance are charged to the statement of profit or loss. Improvements that increase the value or materially extend the life of the related assets are capitalized.

The estimated useful lives of the principal classes of assets are as follows:

| | Years |
|---|---|
| Leasehold improvements | Shorter of 10 years or lease term |
| Office equipment | 5 |
| Furniture and fixtures | 6 |
| Computer equipment | 5 |
| Vehicles | 5 |

### *e) Intangible assets*

Intangible assets are initially recognised at cost less accumulated amortization and impairment losses, if any. Costs that are directly associated with identifiable software products controlled by the Company and have probable economic benefits beyond one year are recognised as intangible assets. Costs associated with maintaining computer software are recognised as an expense as and when incurred.

Amortisation is charged to the statement of profit and loss account by applying the straight line basis whereby the carrying amount of an asset is amortised over its estimated useful life to the Company unless such life is indefinite. The estimated useful life of intangible assets (computer software) is 5 years.

The Company accounts for impairment, where indications exist, by reducing the asset's carrying amount to the recoverable amount.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *f) Leases*

**Right of Use Asset**

On initial recognition, at inception of the contract, the Company shall assess 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.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Company applies cost model, and measure right of use asset at cost;
1. less any accumulated depreciation and any accumulated impairment losses; and
2. adjusted for any re-measurement of the lease liability for lease modifications

**Lease Liability**

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the profit rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental financing rate. Generally, the company uses its incremental financing rate as the discount rate.

After the commencement date, the Company measures the lease liability by:

1. Increasing the carrying amount to reflect finance cost on the lease liability;
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease liability is measured at amortised cost using the effective profit 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.

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

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *g) Accounts payable and accruals*

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

### *h) Provisions*

Provisions are recognized 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.

### *i) Offsetting of financial instruments*

Financial assets and liabilities are offset and reported net in the statement of financial position when the entity has a legal currently enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

### *j) Employees end of service benefits*

Provision is made for amounts payable under the Saudi Arabian Labour Law applicable to employees' accumulated service at the statement of financial position date. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date.

### *k) Expenses*

Selling and marketing expenses are those that specifically relate to sales and marketing. All other expenses are classified as general and administration expenses.

### *l) Foreign currencies*

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

### *m) Benchmark reform of interbank offered rates ("IBOR")*

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address issues that might affect financial reporting after the reform of a profit rate benchmark, including its replacement with alternative benchmark rates. The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021, and do not have a material impact on the Company.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *n) 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) 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 equals 30% of the capital. The Company has transferred SR 3 million (2020: SR 2.50 million) during the year to the reserve account.

### *o) Zakat*

The Company is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax, and as such no deferred tax is calculated relating to Zakat.

### *p) Classification of financial assets*

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or 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 FVOCI**

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

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

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

During 2018, the Company acquired equity instruments of Saudi Finance Lease Registry Company (SIJIL) and classified its investment in equity instruments as fair value through OCI.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial Assets at FVTPL**

All other financial assets are classified as measured at FVTPL.

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

For equity instruments that is not held for trading, on initial recognition, the Company may irrevocably elect to present subsequent changes in fair value in OCI. The election is made on an instrument-by-instrument (i.e. share-by-share) basis.

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.

***q) 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 costs that are an integral part of the effective profit rate.

***r) Derecognition of financial assets and financial liabilities***

**i. Financial assets**

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

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

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

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

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 recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

**ii. Financial liabilities**

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *s) Modifications of financial assets and financial liabilities*

#### i. Financial assets

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

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

#### ii. Financial liabilities

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

### *t) Impairment*

The Company recognizes loss allowances for ECL on the Ijara receivables financial instruments that are not measured at FVTPL.

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

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

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

**Measurement of ECL**

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Restructured financial assets**

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

**Credit-impaired financial assets**

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

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

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of an Ijara receivable by the Company on terms that the Company would not consider otherwise;

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

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

Impairment allowances for ECL of financial assets measured at amortized cost and Ijara receivables are presented in the statement of financial position as a deduction of gross carrying amount of the assets.

**Write-off**

Ijara receivables are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

**Collateral valuation**

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms including promissory notes and title ownership until the completion of the payments. Collateral, unless repossessed, is not recorded in the Company's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum at inception.

(Saudi Arabian Riyals in '000)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Collateral repossessed**

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

***Revenue recognition***

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

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.

Fee income and commission fees earned for Ijara receivables are recognised as an adjustment to the effective profit rate on these receivables. When it is unlikely that receivables will continue to be held by the Company, such fees are recognised in the statement of profit or loss in the year in which the receivables no longer continue to exist in the financial statements.

Servicing income is recognised as the related services are performed and performance obligations are achieved as point-in-time.

## 4. CASH AT BANKS

| | **2021** | 2020 |
|---|---|---|
| Cash in hand | **-** | 5 |
| Cash at banks – current accounts | **50,084** | 25,662 |
| | **50,084** | 25,667 |

## 5. IJARA RECEIVABLES, NET

| | *Notes* | **2021** | 2020 |
|---|---|---|---|
| Gross Ijara receivables | | **4,073,228** | 4,164,209 |
| Less: Unearned income | | **(1,568,708)** | (1,758,137) |
| | *5.1* | **2,504,520** | 2,406,072 |
| Less: Impairment allowance for credit losses | *5.3* | **(22,396)** | (26,997) |
| Ijara receivables, net | | **2,482,124** | 2,379,075 |

(Saudi Arabian Riyals in '000)

## 5. IJARA RECEIVABLES, NET (CONTINUED)

**5.1** The credit quality of Ijara receivables is as follows:

| | **2021** | 2020 |
|---|---|---|
| Neither past due nor impaired | **2,194,778** | 2,146,088 |
| Past due but not impaired | **202,101** | 146,679 |
| Impaired | **107,641** | 113,305 |
| | **2,504,520** | 2,406,072 |

Ageing of past due but not impaired installments and the related balances of Ijara receivables are as follows:

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Ijara receivables** | **Past due instalments** | Ijara receivables | **Past due instalments** |
| 01 – 30 days | **113,671** | **2,059** | 96,555 | 968 |
| 31 – 60 days | **59,421** | **1,223** | 36,041 | 519 |
| 61 –90 days | **29,009** | **1,091** | 14,083 | 250 |
| **Total** | **202,101** | **4,373** | 146,679 | 1,737 |

Ijarah receivable, net include the accrued markup receivable amounting to SR 32.47 million (2020: 32.43 million)

**5.2** The average fair values of collateral, based on the appraisal at the time of origination of the financial assets, held by the Company by each category are as follows:

| | **2021** | 2020 |
|---|---|---|
| Current | **2,835,213** | 2,932,554 |
| 01 – 30 days | **146,232** | 127,943 |
| 31 – 60 days | **72,195** | 44,644 |
| 61 – 90 days | **36,386** | 17,622 |
| More than 90 days | **118,941** | 130,679 |
| | **3,208,967** | 3,253,442 |

These Ijara receivables are secured against mortgages of financed properties with an aggregate average fair value of SR 3.21 billion (31 December 2020: SR 3.25 billion) on the date of financing. The valuation techniques used to determine the fair value of collateral included a combination of the cost and market approach and were done by independent external evaluators on the approved panel of the Company.

Title deeds of real estate properties financed by the Company are registered in the name of the Company, except for those which are under the Ministry of Housing for which title deeds will be transferred upon payment by the Company.

**5.3** The movement of the impairment allowance for credit losses for the year ended 31 December 2021 is as follows:

| | **2021** | 2020 |
|---|---|---|
| Balance as at 01 January | **26,997** | 13,418 |
| Charge for the year | **2,256** | 13,579 |
| Written off during the year | **(6,857)** | **--** |
| Balance as at 31 December | **22,396** | 26,997 |

The impairment allowance includes the allowance related to markup receivable amounting to SR 1.55 million (2020: 7.58 million)

(Saudi Arabian Riyals in '000)

## 5. IJARA RECEIVABLES, NET (CONTINUED)

**5.4** The table below stratifies credit exposures from Ijara receivables into ranges of receivables to value ratio. At the time of origination, Ijara receivables to value ratio is calculated by dividing the gross amount of the financing by the fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

| | **2021** | 2020 |
|---|---|---|
| Less than 50% | **31,020** | 35,944 |
| 51 - 70% | **55,292** | 113,847 |
| 71 - 85% | **286,775** | 707,512 |
| More than 85% | **2,131,433** | 1,548,769 |
| **Total Exposure** | **2,504,520** | 2,406,072 |

**5.5** The credit exposure from Ijara receivable is classified as under:

| | **Not later than one year** | **Later than one year but not later than five years** | **Later than five years** | **Total** |
|---|---|---|---|---|
| **31 December 2021** | | | | |
| Ijara receivables | **227,608** | **612,422** | **3,233,198** | **4,073,228** |
| Unearned income | **(113,706)** | **(349,326)** | **(1,105,676)** | **(1,568,708)** |
| | **113,902** | **263,096** | **2,127,522** | **2,504,520** |
| **Impairment allowance for credit losses** | | | | **(22,396)** |
| | | | | **2,482,124** |
| 31 December 2020 | | | | |
| Ijara receivables | 199,434 | 599,799 | 3,364,976 | 4,164,209 |
| Unearned income | (119,972) | (361,701) | (1,276,464) | (1,758,137) |
| | 79,462 | 238,098 | 2,088,512 | 2,406,072 |
| Impairment allowance for credit losses | | | | (26,997) |
| | | | | 2,379,075 |

The Company's implicit rate of return on leases ranges from 4.16% to 12.01% (31 December 2020: 4.23% to 12.15 %). Tenors of Ijara receivables range from five to thirty years.

During the year, the Company sold receivables amounting to SR 376.63 (31 December 2020: SR196.82 million) to Saudi Real Estate Refinance Company. These financings are being serviced by the Company.

(Saudi Arabian Riyals in '000)

## 6. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | *Notes* | **2021** | 2020 |
|---|---|---|---|
| Deposits | | **345** | 320 |
| Prepayments | | **7,788** | 7,898 |
| Deferred Sales Commission | | **9,257** | 9,406 |
| VAT rebate and servicing fees receivable from Ministry of Housing | *6.1* | **49,899** | 68,381 |
| Other receivables | | **15,587** | 26,080 |
| | | **82,876** | 112,085 |

**6.1** This includes the receivable from Ministry of Housing (MoH) against the VAT paid by the Company on the portion of Ijara financing originated subject to VAT relief for first home buyers. The balance includes provision for credit impairment for an amount of SR 4.5 million.

## 7. INTANGIBLE ASSETS, NET

| | **2021** | **2020** |
|---|---|---|
| | **Computer Software** | |
| **Cost:** | | |
| As at 01 January | **14,258** | 16,374 |
| Additions during the year | **3,867** | 1,584 |
| Adjustments during the year | **--** | (3,700) |
| As at 31 December | **18,125** | 14,258 |
| **Amortization:** | | |
| As at 01 January | **7,040** | 3,834 |
| Charge for the year | **2,309** | 3,206 |
| As at 31 December | **9,349** | 7,040 |
| Net book value as at 31 December | **8,776** | 7,218 |

Additions to computer software include work-in-progress amounting to SAR 3.812 million as at 31 December 2021 (2020: Nil).

(Saudi Arabian Riyals in '000)

## 8. PROPERTY AND EQUIPMENT, NET

| | For the year ended 31 December 2021 | | | | | |
|---|---|---|---|---|---|---|
| | **Leasehold improvements** | **Office equipment** | **Furniture and fixtures** | **Computer equipment** | **Vehicles** | **Total** |
| **Cost:** | | | | | | |
| As at 1 January 2021 | **4,141** | **281** | **906** | **7,728** | **385** | **13,441** |
| Additions | **--** | **49** | **6** | **855** | **--** | **910** |
| As at 31 December 2021 | **4,141** | **330** | **912** | **8,583** | **385** | **14,351** |
| **Accumulated depreciation:** | | | | | | |
| As at 1 January 2021 | **1,897** | **192** | **638** | **4,921** | **122** | **7,770** |
| Charge for the year | **413** | **49** | **166** | **1,002** | **78** | **1,708** |
| As at 31 December 2021 | **2,310** | **241** | **804** | **5,923** | **200** | **9,478** |
| **Net book value as at 31 December 2021** | **1,831** | **89** | **108** | **2,660** | **185** | **4,873** |

(Saudi Arabian Riyals in '000)

## 8. PROPERTY AND EQUIPMENT, NET (CONTINUED)

| | For the year ended 31 December 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Leasehold improvements | Office equipment | Furniture and fixtures | Computer equipment | Vehicles | Total |
| Cost: | | | | | | |
| As at 1 January 2020 | 4,141 | 247 | 898 | 6,934 | 385 | 12,605 |
| Additions | -- | 34 | 8 | 794 | -- | 836 |
| As at 1 January 2020 | 4,141 | 281 | 906 | 7,728 | 385 | 13,441 |
| Accumulated depreciation: | | | | | | |
| As at 1 January 2020 | 1,483 | 140 | 488 | 3,760 | 45 | 5,916 |
| Charge for the year | 414 | 52 | 150 | 1,161 | 77 | 1,854 |
| As at 31 December 2020 | 1,897 | 192 | 638 | 4,921 | 122 | 7,770 |
| Net book value as at 31 December 2020 | 2,244 | 89 | 268 | 2,807 | 263 | 5,671 |

(Saudi Arabian Riyals in '000)

## 9. FINANCING FACILITIES - SECURED

This represents financing obtained from banks based in the Kingdom of Saudi Arabia amounting to SAR 636 million (2020: SAR 631 million) and Saudi Real Estate Refinance Company ("SRC") amounting to SAR 400 million (2020: SAR 400 million). These financings are secured by the assignment of proceeds from certain Ijara receivables and pledge of title deeds of underlying real estate assets. These financing are revolving in nature and carry markup at commercial market rates.

In response to the COVID-19, SAMA launched the deferral payment program to support the finance companies and the Company was eligible for the deferral of its financing instalment payments in accordance with such program during the period as disclosed in note 23.

## 10. SUKUK

During the year, the Company issued unsecured non-convertible unlisted sukuk amounting to SR 250 million (2020: SR Nil). As at 31 December 2021, the remaining balance is SR 550 million (2020: SR 300 million) of which SR 250 million will mature in 2022 and SR 300 million will mature in 2023.

## 11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

| | *Notes* | **2021** | 2020 |
|---|---|---|---|
| Accounts payable | | **12,859** | 20,310 |
| Down payment against Ijara financing | *11.1* | **4,449** | 357 |
| Accrued expenses | | **23,200** | 15,811 |
| Directors' remuneration and meeting expenses | *17* | **2,000** | 1,947 |
| Deferred commission income | | **10,118** | 11,801 |
| Payable to Ministry of Housing (MOH) | *11.2* | **83,960** | 273,873 |
| VAT payable to GAZT | | **923** | 897 |
| | | **137,509** | 324,996 |

**11.1** This pertains to down payment received by the Company against Ijara financing not executed as at the statement of financial position date.

**11.2** This includes balances payable to MOH in relation to purchase of properties which are financed to Ijara receivables customers and are being serviced by the Company.

## 12. ZAKAT

During the year ended 31 December 2021, the Company filed its zakat declarations up until 31 December 2020, and acknowledgment certificates have been obtained. The Company is in the process of submitting its Zakat declaration with Zakat, Tax and Custom Authority (ZATCA) for the year ended 31 December 2021.

| | **2021** | 2020 |
|---|---|---|
| Opening balance | **916** | (2,713) |
| Charge for the year | **3,711** | 3,629 |
| Zakat paid | **(3,679)** | -- |
| Closing balance payable | **948** | 916 |

## 13. SHARE CAPITAL

As at 31 December 2021, the authorised, issued and fully paid-up share capital of the Company was SR 900 million (31 December 2020: SR 900 million) divided into 90 million shares with a nominal value of SR 10 each, which is owned by the shareholders as follows:

| Name of shareholders | Number of shares 000's | Holding percentage (%) | Amount SR'000 |
|---|---|---|---|
| Public Investment Fund | 20,000 | 22.2 | 200,000 |
| Islamic Corporation for the Development of the Private Sector | 18,000 | 20.0 | 180,000 |
| Rashed & his Partner's for Development (RECO) | 15,300 | 17.0 | 153,000 |
| Manafea International | 10,000 | 11.1 | 100,000 |
| The Arab Investment Company | 10,000 | 11.1 | 100,000 |
| Al Othaim Holding | 10,000 | 11.1 | 100,000 |
| El Khereji Investments Company | 3,200 | 3.6 | 32,000 |
| Mohammad bin AbdulAziz Al Rajhi & Sons | 2,000 | 2.2 | 20,000 |
| Jawahir Investment Company | 1,500 | 1.7 | 15,000 |
| | **90,000** | **100** | **900,000** |

## 14. GENERAL AND ADMINISTRATIVE EXPENSES

| | **2021** | 2020 |
|---|---|---|
| Salaries and employee related benefits | **39,440** | 35,860 |
| Professional fees | **6,161** | 6,471 |
| Directors' remuneration and meeting expenses (note 17) | **2,143** | 1,982 |
| IT expenses | **4,654** | 6,166 |
| Rent and premises related expenses | **1,061** | 1,296 |
| Other expenses | **16,203** | 12,053 |
| | **69,662** | 63,828 |

## 15. SELLING AND MARKETING EXPENSES

| | **2021** | 2020 |
|---|---|---|
| Advertising and marketing expense | **1,767** | 1,361 |
| Salaries and employee related expenses | **6,429** | 6,443 |
| Lease property evaluation and takaful expenses | **6,186** | 4,956 |
| | **14,382** | 12,760 |

## 16. EARNINGS PER SHARE – BASIC & DILUTED

Earnings per share is calculated by dividing net profit for the year after Zakat by the weighted average number of shares (90 million shares) in issue during the year. The diluted earnings per share is same as the basic earnings per share.

(Saudi Arabian Riyals in '000)

## 17. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company include the shareholders and their affiliated entities and certain key management personnel. In the ordinary course of its activities, the Company transacts business with its related parties on mutually agreed terms. Key management personnel include the Chief Executive Officer ("CEO") and the personnel directly reporting to CEO. The entity with common key management referred to below is chaired by the CEO of the Company.

The significant transactions with related parties during the year and the related balances are as follows:

| Name of related party | Nature of relationship | Nature of transaction | 2021 | 2020 |
|---|---|---|---|---|
| Saudi Finance Lease Registry Company | Common key Management | Refund against contract services | **728** | -- |
| | | Payments for contract services | **75** | 1,789 |

| Name of related party | Nature of relationship | Nature of transaction | Balance at 31 December 2021 | Balance at 31 December 2020 |
|---|---|---|---|---|
| Saudi Finance Lease Registry Company (SIJIL) | Common Management | Investment held at FVOCI | **893** | 893 |
| | | Payments for contract services | **925** | 1,711 |

The amounts of compensations recorded in favor of or paid to the Board of Directors and the executive management personnel during the year are as follows:

| Name of related parties | Nature of transactions | 2021 | 2020 |
|---|---|---|---|
| Key Management Personnel | - Salaries and benefits | **6,933** | 7,295 |
| | - Provision for end of service employees' benefits | **305** | 304 |
| | - Directors' remuneration and meeting expenses | **2,143** | 1,982 |

| Name of related parties | Balance at the end of the year | 2021 | 2020 |
|---|---|---|---|
| Key Management Personnel | - Provision for end of service employees' benefits | **1,656** | 1,351 |
| | - Directors' remuneration and meeting expenses | **2,000** | 1,947 |

(Saudi Arabian Riyals in '000)

## 18. CONTINGENCIES AND COMMITMENTS

*Contingent liabilities and Commitments*

The Company has facilities approved but not utilized, indicative offers issued which are under consideration of the customers and due diligence in progress as of the reporting date which have the potential to convert into financing, amounting to SR 33.34 million (2020: SR 8.87 million).

The Company has received an amount of SR 3.5 million from Real Estate Development Fund regarding claims on defaulted customers under the Mortgage Guarantee Scheme. The Company has a period of two years from receipt of the claim to enforce its rights under the Ijara contract and recover amounts due from the customer. At the point of recovery the claim received will be repaid to Real Estate Development Fund. If the claims are not repaid within two years the Company will relinquish title of the collateral in favour of the Real Estate Development Fund. Management estimates a low probability of this eventuality occurring and has therefore not recognized any potential future liability in this regard.

At the end of the year, the Company has commitments of SR 274.57 million against forward Ijara tranches payable to the developers of the properties (31 December 2020: SAR 325.76 million).

## 19. RISK MANAGEMENT

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Board Risk Management Committee, which has the responsibility to monitor the overall risk process within the Company.

The Risk Management Committee is responsible for managing risk decisions, monitoring risk levels and reporting on a quarterly basis to the Board of Directors.

***Credit risk***

The Company manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in financing activities that lead to Ijara receivables. The lessees may fail to discharge their contractual obligations for a variety of reasons including change in customer circumstances or a change in value of the underlying collateral. The Company has established procedures to identify and manage credit risk including evaluation of lessees' credit worthiness, formal credit approvals and obtaining collateral. Credit risk is identified and managed at inception of the lease contract as well as on an ongoing basis.

Management monitors the market value of collateral obtained during its review of the adequacy of the impairment allowance for credit losses. The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice

The table below reflects the maximum exposure to credit risk on the financial assets at the reporting date:

| | **2021** | 2020 |
|---|---|---|
| Bank balances | **50,084** | 25,662 |
| Ijara receivables | **2,504,520** | 2,406,072 |
| Deposits and other receivables | **62,373** | 92,631 |
| | **2,616,977** | 2,524,365 |

The credit risks on gross amounts due in relation to the Ijara receivables which pertain to the customer is mitigated at inception of the financing by assessing the customers' credit worthiness as well as the ability of the customer to meet contractual obligations in the future. In addition to this the Company makes use of certain guarantees and takafuls available in the market should any customer in the future fail to meet their contractual obligations. The Company also obtains collateral against Ijara receivables

(Saudi Arabian Riyals in '000)

## 19. RISK MANAGEMENT (CONTINUED)

In assessing a customer's ability to meet their contractual obligations a number of factors are considered including the customers' monthly income, past credit behavior, monthly outgoings and financial commitment to other parties. The Company also recognizes that individual circumstances may change through the term of the lease and, as far as possible, avails itself of additional credit enhancements where these are available. This includes:

- Takaful cover on death or disability of the customer which will settle a portion of the outstanding obligation. The Company ensures all customers are covered by Takaful.
- Mortgage Guarantee Scheme (MGS) available on qualifying customers which will pay 80% of the unpaid principal balance following 90 day default by the customer.
- Subsidised Financing Programme (SFP) available on qualifying customers which subsidises a portion of their ongoing monthly commitments and drives continued good credit behavior by the customer.
- Down Payment Guarantee Scheme (DPG), which provides qualifying customers with a portion of the down payment required to qualify for financing. This enhances the customers' ability to pay contractual obligations in the future, as less of their own resources are absorbed by the down payment.

The portion of Ijara receivables covered by the above credit enhancement tools is as follows:

| | **2021** | 2020 |
|---|---|---|
| Mortgage Guarantee Scheme | **518,189** | 740,374 |
| Subsidised Financing Programme | **70,443** | 273,313 |
| Down Payment Guarantee Scheme | **147,168** | 79,094 |
| Covered by one or more of above | **429,927** | 638,960 |

In assessing the value of collateral which will be relied on to settle unpaid obligations following default by the customer, the Company obtains an independent view of the value of the collateral from a minimum of two suitably qualified, and unconnected, appraisers. The Company also considers the actual price paid by the customer and utilizes a combination of all three to derive a considered value for each property. The Company then advances financing up to a certain value of the considered value, taking into account its overall assessment of credit risk.

In monitoring ongoing credit risk, the Company follows a credit classification mechanism, as a tool to manage the quality of credit risk of the financed Ijara. The credit classification differentiates between performing and impaired portfolios, and allocates provisions accordingly.

### i. Credit quality analysis

The following table sets out information about the credit quality of Ijara receivables measured at amortized cost and accrued Ijara income as at 31 December 2021. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

(Saudi Arabian Riyals in '000)

## 19. RISK MANAGEMENT (CONTINUED)

| | **31 December 2021** | | |
|---|---|---|---|
| | **12 month ECL** | | |
| **Ijara receivables** | **Stage 1 Gross carrying amounts** | **12 Month ECL** | **Stage 1 Net carrying amounts** |
| Unrated | **2,246,580** | **1,080** | **2,245,500** |
| **Total** | **2,246,580** | **1,080** | **2,245,500** |

| | 31 December 2020 | | |
|---|---|---|---|
| | 12 month ECL | | |
| Ijara receivables | Stage 1 Gross carrying amounts | 12 Month ECL | Stage 1 Net carrying amounts |
| Unrated | 2,178,794 | 849 | 2,177,945 |
| Total | 2,178,794 | 849 | 2,177,945 |

| | **31 December 2021** | | |
|---|---|---|---|
| | **Lifetime ECL (not credit impaired)** | | |
| **Ijara receivables** | **Stage 2 Gross carrying amounts** | **Lifetime ECL (not credit impaired)** | **Stage 2 Net carrying amounts** |
| Unrated | **83,647** | **1,905** | **81,742** |
| **Total** | **83,647** | **1,905** | **81,742** |

| | 31 December 2020 | | |
|---|---|---|---|
| | Lifetime ECL (not credit impaired) | | |
| Ijara receivables | Stage 2 Gross carrying amounts | Lifetime ECL (not credit impaired) | Stage 2 Net carrying amounts |
| Unrated | 37,603 | 687 | 36,916 |
| Total | 37,603 | 687 | 36,916 |

(Saudi Arabian Riyals in '000)

## 19. RISK MANAGEMENT (CONTINUED)

| | **31 December 2021** | | |
|---|---|---|---|
| | **Lifetime ECL (credit impaired)** | | |
| **Ijara receivables** | **Stage 3 Gross Carrying amounts** | **Lifetime ECL (credit impaired)** | **Stage 3 Net Carrying amounts** |
| Unrated | **174,293** | **19,411** | **154,882** |
| **Total** | **174,293** | **19,411** | **154,882** |

| | 31 December 2020 | | |
|---|---|---|---|
| | Lifetime ECL (credit impaired) | | |
| Ijara receivables | Stage 3 Gross Carrying amounts | Lifetime ECL (credit impaired) | Stage 3 Net Carrying amounts |
| Unrated | 189,675 | 25,461 | 164,214 |
| Total | 189,675 | 25,461 | 164,214 |

### ii. ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment including forward-looking information.

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

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

### iii. Generating the term structure of PD

The Company employs statistical models to analyze historical performance and default information to generate PD estimates, including how these estimates are expected to change with the passage of time. Statistical models are employed for the Company's Ijara receivables exposures, whereby the primary inputs are days past due (DPD). In addition, the Company incorporates forward-looking information into generating forward-looking PDs. Based on external actual and forecasted data, the Company's analysis takes into account the identification and calibration of relationships between default rates and country-specific macroeconomic information.

## 19. RISK MANAGEMENT (CONTINUED)

### iv. Determining whether credit risk has increased significantly

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

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

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

The Company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

**Stage 1**: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Company recognizes an allowance based on the 12-month ECL and profit is calculated on the gross carrying amount of the asset (i.e. without deduction of credit allowances. All accounts at origination would be classified as Stage 1.

**Stage 2:** for financial instruments where there has been a significant increase in credit risk since initial recognition but they 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 the portfolio held by the Company, all the exposures are moved to stage 2 where the customer is Days Past Due (DPD) 30 days or more (Principal or profit payments) as of 31 December 2021.

**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. DPD of 90 days more (obligors already defaulted) is used as stage 3.

*Consideration due to COVID-19:*
In response to the impacts of COVID-19, various support programmes have been offered to the customers either voluntarily by the Company or on account of SAMA initiatives, such as customers eligible under Deferred Payments Program. The exercise of the deferment option by a customer, in its own, is not considered by the Company as triggering SICR and as a consequence impact on ECL for those customers were determined based on their existing staging. However, as part of the Company's credit evaluation process especially given the current economic situation due to after effects of lock down, the Company obtained further information from the customer to understand their financial position and ability to pay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

## 19. RISK MANAGEMENT (CONTINUED)

### v. Modified financial assets

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

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- 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 receivables 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, forbearance is granted on a selective basis if the customer is currently in default on its debt or if there is a high risk of default, there is evidence that the customer made all reasonable efforts to pay under the original contractual terms and the customer is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity or changing the timing of profit payments.

### v. Definition of 'Default'

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

- the customer is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security; or
- the customer is past due more than 90 days on any material credit obligation to the Company.

### vi. 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 Management Committee and economic 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 or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private sector and academic forecasters.

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. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

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

(Saudi Arabian Riyals in '000)

## 19. RISK MANAGEMENT (CONTINUED)

### vi. Incorporation of forward looking information (continued)

relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2021 included the following key economic data points:

-Unemployment rates
-Inflation
-GDP growth
-Oil prices

**Consideration due to COVID-19**

*Scenario assumptions*

As at 31 December 2021, the scenario assumptions are updated to reflect the current situation of COVID-19. This included an assessment resulting from the support of the Government's actions (such as the impact of payment deferrals) and the response of businesses and customers. These are considered in determining the length and severity of the forecast economic downturn.

*Probability weightings*

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

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current period is the continuing impact of COVID-19. In addition to the base case forecast which reflects the negative economic impact as compared to last year as a consequence of COVID-19, greater weighting has been applied to the downside scenario given the Company's assessment of downside risks and lesser weighting has been applied to upside scenario.

To account for the impact of COVID-19, the Company has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

| **Economic Indicators** | **Forecast calendar years used in 2021 ECL model** | | Forecast calendar years used in 2020 ECL model | |
|---|---|---|---|---|
| | **2022** | **2023** | 2021 | 2022 |
| GDP | 4.83 | 2.778 | 3.099 | 2.233 |
| Oil prices | 55 | 55 | 55 | -- |
| Unemployment rate | 7.4 | 7.4 | 11.8 | -- |
| Inflation | 2.223 | 1.976 | 3.701 | 2.135 |

### vii. 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);
iii. exposure at default (EAD)

## 19. RISK MANAGEMENT (CONTINUED)

### vii. Measurement of ECL (continued)

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.

LGD is the magnitude of the likely loss if there is a default. Due to the size of the Company's portfolio, there is insufficient historical LGD data to derive statistically reliable LGD estimates. Therefore, the Company benchmarks LGD to regulator guidelines (i.e. 50% for its unsecured exposures). The Company applied a hair cut of 25% for Real Estate Collateral.

Going forward, subject to availability of adequate recovery data, the Company shall revise the LGD estimation methodology in line with IFRS 9 requirements.

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) of 5% for Real Estate. Floor is determined based on management judgment.

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

Subject to using a minimum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any customers' extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require settlement of the financing.

**Collateral**

The Company in the ordinary course of financing activities holds collateral as security to mitigate credit risk in the Ijara receivables. These collaterals mostly include promissory notes and real estate titles. The collaterals are held mainly against Ijara receivables, and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting date, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

(Saudi Arabian Riyals in '000)

## 19. RISK MANAGEMENT (CONTINUED)

### Gross carrying amount

The following table explains the changes in gross carrying amount of the Company's Ijara receivables to help explain their significance to the changes in the loss allowance for the same portfolio.

| | 31 December 2021 | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| **Balance at 1 January 2021** | **2,195,931** | **38,269** | **171,872** | **2,406,072** |
| **Transfer to 12-month ECL** | **33,873** | **(6,342)** | **(27,531)** | **-** |
| **Transfer to lifetime ECL not credit impaired** | **(51,463)** | **59,320** | **(7,857)** | **-** |
| **Transfer to lifetime ECL-credit impaired** | **(42,116)** | **(14,801)** | **56,917** | **-** |
| **Financial assets derecognized during the year other than write-offs** | **(376,308)** | **-** | **(17,930)** | **(394,238)** |
| **New financial assets originated during the year** | **486,663** | **7,201** | **5,679** | **499,543** |
| **Write off during the year** | **-** | **-** | **(6,857)** | **(6,857)** |
| **Balance as at 31 December 2021** | **2,246,580** | **83,647** | **174,293** | **2,504,520** |

| | 31 December 2020 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| Balance at 1 January 2020 | 1,642,746 | 45,204 | 139,731 | 1,827,681 |
| Transfer to 12-month ECL | 44,436 | (26,222) | (18,214) | - |
| Transfer to lifetime ECL not credit impaired | (25,087) | 28,249 | (3,162) | - |
| Transfer to lifetime ECL-credit impaired | (40,160) | (13,851) | 54,011 | - |
| Financial assets derecognized during the year other than write-offs | (250,861) | (714) | (6,192) | (257,767) |
| New financial assets originated during the year | 824,857 | 5,603 | 5,698 | 836,158 |
| Balance as at 31 December 2020 | 2,195,931 | 38,269 | 171,872 | 2,406,072 |

### Loss allowance

The following table shows reconciliations from the opening to the closing balance of the loss allowance of Ijara receivables and accrued Ijara income:

| | 31 December 2021 | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| **Balance at 1 January 2021** | **849** | **687** | **25,461** | **26,997** |
| **Transfer to 12-month ECL** | **75** | **(3)** | **(72)** | **-** |
| **Transfer to lifetime ECL not credit impaired** | **(1,151)** | **1,362** | **(211)** | **-** |
| **Transfer to lifetime ECL-credit impaired** | **(2,068)** | **(534)** | **2,602** | **-** |
| **Write off during the year** | **-** | | **(6,857)** | **(6,857)** |
| **Net charge for the year** | **3,375** | **393** | **(1,512)** | **2,256** |
| **Balance as at 31 December 2021** | **1,080** | **1,905** | **19,411** | **22,396** |

(Saudi Arabian Riyals in '000)

## 19. RISK MANAGEMENT (CONTINUED)

| | 31 December 2020 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| Balance at 1 January 2020 | 937 | 1,125 | 17,394 | 19,456 |
| Transfer to 12-month ECL | 68 | (37) | (31) | - |
| Transfer to lifetime ECL not credit impaired | (427) | 466 | (39) | - |
| Transfer to lifetime ECL-credit impaired | (1,591) | (582) | 2,173 | - |
| Net charge for the period | 1,862 | (285) | 5,964 | 7,541 |
| Balance as at 31 December 2020 | 849 | 687 | 25,461 | 26,997 |

### COVID-19 overlays

The prevailing economic conditions do require the Company to continue to revise certain inputs and assumptions used for the determination of ECL. These primarily revolve around either adjusting macroeconomic factors used by the Company in the estimation of ECL or revisions to the scenario probabilities currently being used by the Company. As the situation continues to be fluid, the management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. The Company has therefore recognised overlays of SR 3.09 million (2020: 3.60 million) as at 31 December 2021. The Company will continue to reassess as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

### *Liquidity risk*

Liquidity risk is the risk that the Company may encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Company monitors and manages the liquidity structure of its assets and liabilities to ensure that cash flows are sufficiently balanced and that sufficient liquid funds are maintained to meet liquidity requirements.

The tables below summarize the maturity profile of the Company's financial assets and liabilities on discounted cash flows, on the basis of the remaining contractual maturity as of the statement of financial position date to the contractual maturity date.

| **31 December 2021** | **Carrying value** | **Up to three months** | **More than three months and less than one year** | **More than one and less than five years** | **Over five years** | **No fixed maturity** | **Total** |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash and cash equivalents | **50,084** | **-** | **-** | **-** | **-** | **50,084** | **50,084** |
| Investments at FVOCI | **893** | **-** | **-** | **-** | **-** | **893** | **893** |
| Ijara receivables | **2,504,520** | **27,208** | **86,695** | **263,096** | **2,127,521** | **-** | **2,504,520** |
| Deposits and other receivables | **62,373** | **-** | **62,028** | - | **-** | **345** | **62,373** |
| | **2,617,870** | **27,208** | **148,723** | **263,096** | **2,127,521** | **51,322** | **2,617,870** |
| **Financial Liabilities** | | | | | | | |
| Financing facilities - secured | **1,036,000** | **206,500** | **725,000** | **104,500** | **-** | **-** | **1,036,000** |
| Sukuk | **550,000** | **-** | **100,000** | **450,000** | **-** | **-** | **550,000** |
| Finance lease liability | **5,904** | **-** | **5,904** | **-** | **-** | **-** | **5,904** |
| Accrued expenses and other current liabilities | **103,268** | **6,449** | **96,819** | **-** | **-** | **-** | **103,268** |
| | **1,695,172** | **212,949** | **927,723** | **554,500** | **-** | **-** | **1,695,172** |
| **Gap** | **922,698** | **(185,741)** | **(779,000)** | **(291,404)** | **2,127,521** | **51,322** | **922,698** |

(Saudi Arabian Riyals in '000)

## 19. RISK MANAGEMENT (CONTINUED)

***Liquidity risk (continued)***

| 31 December 2020 | Carrying value | Up to three months | More than three months and less than one year | More than one and less than five years | Over five years | No fixed maturity | Total |
|---|---|---|---|---|---|---|---|
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 25,667 | -- | -- | -- | -- | 25,667 | 25,667 |
| Investments at FVOCI | 893 | -- | -- | -- | -- | 893 | 893 |
| Ijara receivables | 2,406,072 | 28,413 | 51,049 | 728,586 | 1,598,024 | -- | 2,406,072 |
| Deposits and other receivables | 92,631 | -- | 92,311 | -- | -- | 320 | 92,631 |
| | 2,525,263 | 28,413 | 143,360 | 728,586 | 1,598,024 | 26,880 | 2,525,263 |
| Financial Liabilities | | | | | | | |
| Financing facilities – secured | 1,031,000 | 810,000 | 221,000 | -- | -- | -- | 1,031,000 |
| Sukuk | 300,000 | -- | 300,000 | -- | -- | -- | 300,000 |
| Finance lease liability | 7,436 | -- | 7,436 | -- | -- | -- | 7,436 |
| Accrued expenses and other current liabilities | 296,487 | 2,304 | 294,183 | -- | -- | -- | 296,487 |
| | 1,634,923 | 812,304 | 822,619 | -- | -- | -- | 1,634,923 |
| Gap | 890,340 | (783,891) | (679,259) | 728,586 | 1,598,024 | 26,880 | 890,340 |

The following table discloses the maturity of financial liabilities on undiscounted cash flows:

| | **Carrying value** | **Up to three months** | **More than three months and up to one year** | **More than one year and up to five years** | **No fixed maturity** | **Total** |
|---|---|---|---|---|---|---|
| **31 December 2021** | | | | | | |
| Financing facilities -secured | **1,036,000** | **206,500** | **729,528** | **104,500** | **-** | **1,040,528** |
| Sukuk | **550,000** | **3,884** | **115,069** | **460,368** | **-** | **579,321** |
| Finance lease liability | **5,904** | **-** | **1,813** | **4,534** | **-** | **6,347** |
| Accrued expenses & other current liabilities | **103,268** | **6,449** | **96,819** | **-** | **-** | **103,268** |
| **31 December 2021** | **1,695,172** | **216,833** | **943,229** | **569,402** | **-** | **1,729,464** |

| | Carrying value | Up to three months | More than three months and up to one year | More than one year and up to five years | No fixed maturity | Total |
|---|---|---|---|---|---|---|
| 31 December 2020 | | | | | | |
| Financing facilities -secured | 1,031,000 | 62,512 | 300,467 | 674,000 | -- | 1,036,979 |
| Sukuk | 300,000 | -- | -- | 300,458 | -- | 300,458 |
| Finance lease liability | 7,436 | -- | -- | 7,436 | -- | 7,436 |
| Accrued expenses & other current liabilities | 296,487 | 2,304 | 294,183 | -- | -- | 296,487 |
| 31 December 2020 | 1,634,923 | 64,816 | 594,650 | 981,894 | -- | 1,641,360 |

## 19. RISK MANAGEMENT (CONTINUED)

### *Market risk*

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates and foreign exchange rates. Market risk can be categorised into profit rate risk, equity price risk and currency risk as follows:

### *Profit rate risk*

Profit rate risk is the uncertainty of future earnings resulting from fluctuations in profit rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to profit rate adjustment within a specified year. The most important source of such rate risk at the date in the statement of financial position are the Company's Ijara receivables, where fluctuations in profit rates, if any, are reflected in the results of operations.

The following table depicts the sensitivity to a reasonably possible change in profit rates, with other variables held constant, on the Company's profit or loss. The sensitivity of income is the effect of the assumed changes in profit rates on the Ijara income for one year, based on the floating rate non-trading financial assets.

| Currency (SR'000) | Increase in basis points | Sensitivity of profit or loss | Up to three months | More than three months and up to one year | More than one year and up to five years | Over five years |
|---|---|---|---|---|---|---|
| 31 December 2021 | **+/- 25** | **3,922** | **94** | **189** | **873** | **2,764** |
| 31 December 2020 | +/- 25 | 5,933 | 70 | 125 | 587 | 5,151 |

The Company is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given year.

The table below summarises the Company's exposure to profit rate risks. Included in the table are the Company's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

| 31 December 2021 | Carrying value | Up to three months | More than three months and less than one year | More than one and less than five years | Over five years | No fixed maturity | Total |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash and cash equivalents | **50,084** | **-** | **-** | **-** | **-** | **50,084** | **50,084** |
| Investments at FVOCI | **893** | **-** | **-** | **-** | **-** | **893** | **893** |
| Ijara receivables | **2,504,520** | **457,470** | **1,401,107** | **-** | **-** | **645,943** | **2,504,520** |
| Deposits and other receivables | **62,373** | **-** | **62,028** | **-** | **-** | **345** | **62,373** |
| | **2,617,870** | **457,470** | **1,463,135** | **-** | **-** | **697,265** | **2,617,870** |
| **Financial Liabilities** | | | | | | | |
| Financing facilities - secured | **1,036,000** | **206,500** | **725,000** | **104,500** | **-** | **-** | **1,036,000** |
| Sukuk | **550,000** | **-** | **100,000** | **450,000** | **-** | **-** | **550,000** |
| Finance lease liability | **5,904** | **-** | **5,904** | **-** | **-** | **-** | **5,904** |
| Accrued expenses and other current liabilities | **103,268** | **6,449** | **96,819** | **-** | **-** | **-** | **103,268** |
| | **1,695,172** | **212,949** | **927,723** | **554,500** | **-** | **-** | **1,695,172** |
| **Gap** | **922,698** | **244,521** | **535,412** | **(554,500)** | **-** | **697,265** | **922,698** |

(Saudi Arabian Riyals in '000)

## 19. RISK MANAGEMENT (CONTINUED)

| 31 December 2020 | Carrying value | Up to three months | More than three months and less than one year | More than one and less than five years | Over five years | No fixed maturity | Total |
|---|---|---|---|---|---|---|---|
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 25,667 | -- | -- | -- | -- | 25,667 | 25,667 |
| Investments at FVOCI | 893 | -- | -- | -- | -- | 893 | 893 |
| Ijara receivables | 2,406,072 | 549,552 | 1,380,404 | -- | -- | 476,116 | 2,406,072 |
| Deposits and other receivables | 92,631 | -- | 92,311 | -- | -- | 320 | 92,631 |
| | 2,525,263 | 549,552 | 1,472,715 | -- | -- | 502,996 | 2,525,263 |
| Financial Liabilities | | | | | | | |
| Financing facilities - secured | 1,031,000 | 810,000 | 221,000 | -- | -- | -- | 1,031,000 |
| Sukuk | 300,000 | -- | 300,000 | -- | -- | -- | 300,000 |
| Finance lease liability | 7,436 | -- | 7,436 | -- | -- | -- | 7,436 |
| Accrued expenses and other current liabilities | 296,487 | 2,304 | 294,183 | -- | -- | -- | 296,487 |
| | 1,634,923 | 812,304 | 822,619 | -- | -- | -- | 1,634,923 |
| Gap | 890,340 | (262,752) | 650,096 | -- | -- | 502,996 | 890,340 |

***Equity Price Risk***

Equity risk refers to the risk of a decrease in fair values of equities in the Company's non-trading investment portfolio as a result of reasonably possible changes in levels of equity indices and the value of individual stocks. The Company is not exposed to significant equity price risk as it does not hold material investments in equity securities other than shares in SIJIL.

***Currency risk***

Currency risk is the risk that the value of financial instruments may fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company is not exposed to significant currency risk as most of its transactions are in the local currency.

## 20. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

The principal or the most advantageous market must be accessible by the Company.

Financial instruments comprise financial assets and financial liabilities.

(Saudi Arabian Riyals in '000)

## 20. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets consist of cash and cash at banks, Ijarah receivables, investments held at FVOCI, deposits and other receivables. Financial liabilities consist of financing facilities-secured, sukuk, lease liabilities and accrued expenses and other liabilities payable.

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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. The following table shows the carrying amounts and fair values of financial instruments, including their levels in the fair value hierarchy:

| | **31 December 2021** | | | | |
|---|---|---|---|---|---|
| **Financial assets at fair value** | **Carrying value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Investments at FVOCI | **893** | -- | -- | **893** | **893** |

| | 31 December 2020 | | | | |
|---|---|---|---|---|---|
| Financial assets at fair value | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| Investments at FVOCI | 893 | -- | -- | 893 | 893 |

| | **31 December 2021** | | | | |
|---|---|---|---|---|---|
| **Financial assets not measured at fair value** | **Carrying value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Bank balances | **50,084** | **50,084** | **-** | **-** | **50,084** |
| Ijara receivables, net | **2,504,520** | **-** | **-** | **2,148,805** | **2,148,805** |
| Deposits and other receivables | **62,373** | **-** | **-** | **62,373** | **62,373** |
| | **2,616,977** | **50,084** | **-** | **2,211,178** | **2,261,262** |

(Saudi Arabian Riyals in '000)

## 20. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

| | 31 December 2020 | | | | |
|---|---|---|---|---|---|
| Financial assets not measured at fair value | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| Bank balances | 25,667 | 25,667 | -- | -- | 25,667 |
| Ijara receivables, net | 2,406,072 | -- | -- | 2,398,413 | 2,398,413 |
| Deposits and other receivables | 92,632 | -- | -- | 92,632 | 92,632 |
| | 2,524,371 | 25,667 | -- | 2,491,045 | 2,516,712 |

| | **31 December 2021** | | | | |
|---|---|---|---|---|---|
| | **Carrying value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial liabilities not measured at fair value** | | | | | |
| Financing facilities - secured | **1,036,000** | **--** | **--** | **1,036,000** | **1,036,000** |
| Sukuk | **550,000** | **--** | **--** | **556,927** | **556,927** |
| Finance lease liability | **5,904** | **--** | **--** | **5,904** | **5,904** |
| Accrued expenses and other current liabilities | **103,268** | **--** | **--** | **103,268** | **103,268** |
| | **1,695,172** | **--** | **--** | **1,702,099** | **1,702,099** |

| | 31 December 2020 | | | | |
|---|---|---|---|---|---|
| | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| Financial liabilities not measured at fair value | | | | | |
| Financing facilities - secured | 500,000 | -- | -- | 500,000 | 500,000 |
| Sukuk | 550,000 | -- | -- | 523,504 | 523,504 |
| Finance lease liability | 5,904 | -- | -- | 5,904 | 5,904 |
| Accrued expenses and other current liabilities | 296,486 | -- | -- | 296,486 | 296,486 |
| | 1,352,390 | -- | -- | 1,325,894 | 1,325,894 |

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurement in level 3 of the fair value hierarchy.

| | **Opening** | **Purchase** | **Sale** | **Closing** |
|---|---|---|---|---|
| **2021** | **893** | **--** | **--** | **893** |
| 2020 | 893 | -- | -- | 893 |

**Sensitivity Analysis**

For the fair value of level 3 investments, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

(Saudi Arabian Riyals in '000)

## 20. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

| | **2021** | 2020 |
|---|---|---|
| **Investments held at fair value through income statement** | | |
| Impact on unrealized gain for the year ended: | | |
| ***If increased by 1%*** | **9** | 9 |
| ***If decreased by 1%*** | **9** | 9 |

The fair value of Ijara receivables is based on actual cash flows discounted by the average year end internal rate of return and is not evidenced by a quoted price in an active market for an identical asset or based on a valuation technique that uses only data from observable markets, hence the fair value of Ijara receivables is classified under level 3.

During the year ended 31 December 2021, there were no transfers into or out of Level 3.

## 21. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base to maintain creditor and market confidence and to sustain future development of the business. Management monitors the return on capital to ordinary shareholders.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with the advantages afforded by a sound capital position.

## 22. SEGMENT INFORMATION

The Company's objective is to provide financing for real estate leases in the Kingdom of Saudi Arabia. All assets, liabilities and operations as reflected in the statement of financial position and statement of profit or loss belongs to the real estate financing segment.

## 23. SAMA SUPPORT PROGRAMS AND INITIATIVE

In response to COVID-19, SAMA launched the *Private Sector Financing Support Program* ("PSFSP") in March 2020 to provide the necessary support to the SME sector through empowering and facilitating the financing community. The PSFSP encompasses the *'Deferred payments program'* which is applicable to the Company.

As part of the deferred payments program, the Company was eligible for the deferral of its financing instalment payments to SRC for a total of 12 months (original deferment for six months was followed on by a further extension of six months). The payment relief is considered as short-term liquidity support to assist the Company's cash flow position. The payment relief was provided by SRC by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months and then further extending up to 31 May 2021, without increasing the facility tenor. The accounting impact of these amended terms to the Company's financing facilities has been treated as per the requirements of IFRS 9 as modifications in the terms of arrangement. This resulted in the Company recognising a modification gain of SAR 1.052 million, and this has been presented separately in the statement of profit or loss.

(Saudi Arabian Riyals in '000)

## 24. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Company has not early adopted the following new IFRS and amendments to IFRS effective for annual years beginning after 1 January 2022:

| | **Effective for annual years beginning on or after** |
|---|---|
| A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 | 1 January 2022 |
| Amendments to IAS 1, Presentation of financial statements', on classification of liabilities | 1 January 2024 |
| Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 | 1 January 2023 |
| Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction | 1 January 2023 |
| IFRS 17, 'Insurance contracts', as amended in June 2020 | 1 January 2023 |
| A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts | 1 January 2023 |

These standards, once adopted, are not expected to have any impact on the Company's financial statements amounts or presentation.

## 25. RECLASSIFICATION

During the year, the Company has reclassified certain balances to conform to the current period presentation and the impact to the overall financial statement's presentation is not material.

The following table shows the impact on each financial statement caption affected by the reclassification:

| **Financial statement caption** | **Description** | **31 December 2020 (Before reclassification)** | **Reclassification** | **31 December 2020 (After reclassification)** |
|---|---|---|---|---|
| Ijara receivables, net | Ijara receivables, net | 2,373,646 | 32,426 | 2,406,072 |
| | Impairment allowance for credit losses | 12,266 | 14,731 | 26,997 |
| Deposits, prepayments and other receivables, net | Accrued Ijara income | 32,426 | (32,426) | -- |
| | Impairment allowance on accrued Ijarah income | 8,693 | (8,693) | -- |
| Accrued expenses and other current liabilities | Account payables | 26,348 | (6,038) | 20,310 |
| Ijara income | Ijara income | 132,068 | 6,038 | 138,106 |
| Impairment charge for credit and other losses | Impairment charge for credit and other losses | (7,541) | (6,038) | (13,579) |

## 26. APPROVAL OF FINANCIAL STATEMENTS

The financial statements and accompanying notes were approved for issue by the Board of Directors on 27 February 2022 (corresponding to 26 Rajab 1443).