

TAAJEER FINANCE LEASE COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

TAAJEER FINANCE LEASE COMPANY

(A Saudi Closed Joint Stock Company)

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022**

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS' OF TAAJEER FINANCE LEASE COMPANY (A Saudi Closed Joint Stock Company)

Opinion

We have audited the financial statements of Taajeer Finance Lease Company (A Saudi Closed Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia ("ISAs"). Our responsibilities under those standards are further described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants and endorsed in the Kingdom of Saudi Arabia ("IESBA Code"), 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 International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and the provisions of Companies' Regulation and 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE SHAREHOLDERS' OF TAAJEER FINANCE LEASE COMPANY
(A Saudi Closed Joint Stock Company)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Baker Tilly MKM & Co.
Certified Public Accountants

Bader Hatim Al Tanimi
License No. 489
Jeddah on 13 Sha'ban 1444H
Corresponding to 5 March 2023



TAAJEER FINANCE LEASE COMPANY

(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION**AS AT 31 DECEMBER 2022**

	Note	31 December 2022 SR	31 December 2021 SR
ASSETS			
Cash and cash equivalents	5	271,696,737	100,676,369
Prepayments and other current assets	6	15,998,206	18,190,823
Net investment in finance lease	7	960,000,474	800,479,205
Net deferred consideration receivable	7	58,614,490	46,070,353
Due from a related party	24	20,959,730	144,689
Vehicles available for lease		1,323,348	8,814,320
Equity investments at FVTOCI	8	892,850	892,850
Profit rate swap contract assets	13	13,332,623	-
Property and equipment	9	4,516,279	4,533,597
Intangible assets	10	1,970,066	2,620,157
TOTAL ASSETS		1,349,304,803	982,422,363
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Trade and other payables	11	195,592,510	167,685,965
Due to related parties	24	1,316,957	14,771,936
Zakat payable	12	8,982,073	3,002,968
Net servicing liability	7	6,371,220	16,938,781
Loans	13	597,246,595	505,503,171
Profit rate swap contract obligation	13	-	987,777
Employee termination benefits	17	3,682,652	2,969,058
TOTAL LIABILITIES		813,192,007	711,859,656
SHAREHOLDERS' EQUITY			
Share capital	14	200,000,000	200,000,000
Proposed capital	14	300,000,000	-
Statutory reserve	14	14,715,637	9,588,006
Retained earnings		8,064,536	61,962,478
Profit rate swap hedge reserve	13	13,332,623	(987,777)
TOTAL SHAREHOLDERS' EQUITY		536,112,796	270,562,707
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,349,304,803	982,422,363

The accompanying notes form an integral part of these financial statements

TAAJEER FINANCE LEASE COMPANY

(A Saudi Closed Joint Stock Company)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

	<u>Note</u>	<u>2022</u>	<u>2021</u>
		<u>SR</u>	<u>SR</u>
Finance income	18	82,903,348	70,508,977
Finance costs	19	(25,474,261)	(24,154,081)
Net finance income		57,429,087	46,354,896
Net gain on securitization of receivables	7	22,110,884	33,743,687
Net change in deferred consideration receivables	7	3,000,165	3,222,310
Net change in net servicing liability	7	15,864,183	15,534,837
Government grant income	13	6,793,319	629,087
Other operating income, net	20	40,450,836	23,891,114
Selling and marketing expenses	21	(16,415,030)	(17,337,132)
General and administrative expenses	22	(38,943,011)	(37,555,333)
Impairment of net investment in finance lease	7	(13,249,450)	(18,919,934)
Other operating expenses		(13,171,827)	(13,055,760)
Net operating profit		63,869,156	36,507,772
Zakat	12	(12,592,845)	(3,115,007)
Profit for the year		51,276,311	33,392,765
Other Comprehensive Income (OCI)			
<i>Items that may be reclassified to profit or loss in subsequent years:</i>			
Change in fair value of profit rate swap	13	14,320,400	(987,777)
<i>Items that will not be reclassified to profit or loss in subsequent years:</i>			
Remeasurements of defined benefit liability	17	(46,622)	(56,364)
Other comprehensive income /(loss) for the year		14,273,778	(1,044,141)
Total comprehensive income for the year		65,550,089	32,348,624
Earnings per share:			
Basic and diluted earnings per share		2.56	1.67
Weighted average number of shares outstanding	16	20,000,000	20,000,000

The accompanying notes form an integral part of these financial statements

TAAJEER FINANCE LEASE COMPANY

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Note</i>	<i>Share capital</i>	<i>Proposed capital</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Profit rate swap hedge reserve</i>	<i>Total equity</i>
		<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
For the year ended 31 December 2022:							
As at 1 January 2022	14	200,000,000	-	9,588,006	61,962,478	(987,777)	270,562,707
Profit for the year		-	-	-	51,276,311	-	51,276,311
Other comprehensive income /(loss)		-	-	-	(46,622)	14,320,400	14,273,778
Total comprehensive income		-	-	-	51,229,689	14,320,400	65,550,089
Capital increase	14	-	300,000,000	-	(100,000,000)	-	200,000,000
Transfer to statutory reserve		-	-	5,127,631	(5,127,631)	-	-
As at 31 December 2022		200,000,000	300,000,000	14,715,637	8,064,536	13,332,623	536,112,796
For the year ended 31 December 2021:							
As at 1 January 2021	14	200,000,000	-	6,248,729	31,965,354	-	238,214,083
Profit for the year		-	-	-	33,392,765	-	33,392,765
Other comprehensive loss		-	-	-	(56,364)	(987,777)	(1,044,141)
Total comprehensive income		-	-	-	33,336,401	(987,777)	32,348,624
Transfer to statutory reserve		-	-	3,339,277	(3,339,277)	-	-
As at 31 December 2021		200,000,000	-	9,588,006	61,962,478	(987,777)	270,562,707

The accompanying notes form an integral part of these financial statements

TAAJEER FINANCE LEASE COMPANY

(A Saudi Closed Joint Stock Company)

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022**

	<u>Note</u>	<u>2022</u> <u>SR</u>	<u>2021</u> <u>SR</u>
OPERATING ACTIVITIES			
Profit for the year		51,276,311	33,392,765
Adjustments for non-cash items:			
Zakat expense	12	12,592,845	3,115,007
Impairment of net investment in finance lease	7	13,249,450	18,919,934
Finance costs		25,474,261	24,154,081
Depreciation and amortization	9&10	3,227,944	2,671,765
Employee termination benefits incurred	17	880,731	717,361
Government grant income		(6,793,319)	(629,087)
Net gain on securitization of receivables	7	(22,110,884)	(33,743,687)
Net change in deferred consideration receivables	7	(3,000,165)	(3,222,310)
Net change in net servicing liability	7	(15,864,183)	(15,534,837)
		<u>58,932,991</u>	<u>29,840,992</u>
Changes in working capital:			
Prepayments and other current assets		2,192,617	5,849,302
Net investment in finance lease		(154,907,185)	(232,459,271)
Due from a related party		(20,815,041)	(144,689)
Vehicles available for lease		7,490,972	(5,422,349)
Trade and other payables		24,835,306	31,973,169
Due to related parties		(13,454,979)	(5,144,800)
		<u>(95,725,319)</u>	<u>(175,507,646)</u>
Finance costs paid		(22,332,132)	(22,857,529)
Employee termination benefits paid	17	(284,649)	(334,171)
Zakat paid	12	(6,613,740)	(4,764,382)
Net cash flows used in operating activities		<u>(124,955,840)</u>	<u>(203,463,728)</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	9	(2,056,897)	(2,003,776)
Purchase of intangibles	10	(503,638)	(580,316)
Net cash flows used in investing activities		<u>(127,516,375)</u>	<u>(2,584,092)</u>
FINANCING ACTIVITIES			
Proceeds from loans		231,861,408	420,218,565
Repayments of loans		(133,324,665)	(237,905,666)
Capital increase	14	200,000,000	-
Net cash flows generated from financing activities		<u>298,536,743</u>	<u>182,312,899</u>
Net change in cash and cash equivalents		<u>46,064,528</u>	<u>(23,734,921)</u>
Cash and cash equivalents at the beginning of the year		<u>100,676,369</u>	<u>124,411,290</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u><u>146,740,897</u></u>	<u><u>100,676,369</u></u>
NON-CASH TRANSACTIONS			
Change in fair value of profit rate swap	13	(14,320,400)	987,777
Capital increase from retained earnings	14	100,000,000	-

The accompanying notes form an integral part of these financial statements

TAAJEER FINANCE LEASE COMPANY

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1 COMPANY INFORMATION

Taajeer Finance Lease Company (the "Company") is a Saudi Closed Joint Stock Company, registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030289565 issued on 17 Sha'ban 1437H (corresponding to 24 May 2016).

The Company's head office is based in Jeddah. The principal activity of the Company is to engage in the following business activities in the Kingdom of Saudi Arabia:

- a) Small and Medium Enterprises (SME) Financing
- b) Finance leasing
- c) Consumer Finance Murabaha

On 29 Safar 1438H (corresponding to 29 November 2016), the Company received a license from the Saudi Central Bank (SAMA) to undertake both finance leasing and small and medium enterprises (SME) financing in the Kingdom of Saudi Arabia under license number 46/AU/201611.

On 13 Jumada I 1441H (corresponding to 8 January 2020), the Company obtained the approval from SAMA to add consumer financing murabaha as a new product for individuals.

The Company is a subsidiary of Al Ahdaf Al Mumaizah Company Limited (the "Parent Company"). The ultimate parent of the Company is Taajeer Group ("Ultimate Parent"). Saudi shareholders own the Company, the Parent and the Ultimate Parent of the Company.

As at 31 December 2022, the Company operates through 6 branches (31 December 2021: 6 branches). The accompanying financial statements include the assets, liabilities and results of the Company and these branches as listed below:

<u>CR number</u>	<u>Location</u>
1010468134	Riyadh
4030293321	Jeddah
2252067592	Al Mubarraz
2050111740	Dammam
4031098948	Mecca
5850070587	Abha

2 BASIS OF PREPARATION

The financial statements of the Company for the year ended 31 December 2022 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia (KSA), and other standards and pronouncements adopted by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (referred to as "IFRS as endorsed in KSA"). Details of the Company's significant accounting policies are disclosed in note 27.

The financial statements have been prepared on a historical cost convention using the accrual basis of accounting, except for financial instruments measured at fair value. The financial statements are presented in Saudi Riyals which is also the functional currency of the Company and all values are rounded to the nearest Riyal (SR), except when otherwise indicated.

TAAJEER FINANCE LEASE COMPANY

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risk and uncertainties' includes:

- | | |
|---|---------|
| - Impact of COVID - 19 disclosures | Note 28 |
| - Financial instruments risk management | Note 26 |
| - Sensitivity analysis disclosures | Note 17 |

3.1 Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements.

Derecognition of securitized receivables

As explained in note 7, management exercises professional judgment in determining whether the purchase and agency agreement transfers substantially all the risks and rewards of ownership of securitized lease receivables to the banks and whether the Company lost control on such receivables to determine whether such receivables should be derecognized accordingly.

Going Concern

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

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as prepayment risk, liquidity risk, credit risk and volatility.

Determination of net servicing liability

As explained in note 7, under the purchase and agency agreements, the Company has been appointed by the banks to service the receivables purchased by the banks. Assumptions used to calculate the servicing liability are based on estimates of costs to be incurred by the Company over the life of the purchase and agency agreements.

TAAJEER FINANCE LEASE COMPANY

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.2 Estimates and assumptions (continued)

Uncertain zakat positions

The Company's current zakat payable relates to management's assessment of the amount of zakat payable on open zakat positions where the liabilities remain to be agreed with the Zakat, Tax and Customs Authority (ZATCA). Due to the uncertainty associated with such zakat items, it is possible that, on finalization of open zakat assessments at a future date, the final outcome may differ significantly. Note 12 describes the status of zakat and tax assessments.

Determination of net deferred consideration receivable

As also explained in note 7, in order to calculate the net deferred consideration receivable under the purchase and agency agreement, the Company uses assumptions to calculate the allowance for delinquent receivables and discounts for premature terminations of contracts based on historical trends which are updated periodically (at least once in a year or more frequently when needed) based on a change in circumstances which indicate that the historical rates may not be appropriate.

Impairment of lease receivables

In the preparation of the financial statements management has made certain additional assumptions in the measurement of Expected Credit Loss (ECL). However, in view of the current uncertainty, any future change in the assumptions and key estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments (refer to note 27).

The measurement of impairment losses 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 Loss (ECL) calculation is an output of a complex model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

- The Company's internal credit grading model, which assigns Probabilities of Default (PDs) to the individual pool of receivables;
- 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 Expected Credit Loss (LTECL) basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels, GDP and the effect on PDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model.

TAAJEER FINANCE LEASE COMPANY

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NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2022****4 CHANGES TO THE COMPANY'S ACCOUNTING POLICIES**

The accounting policies and methods of computation adopted in the preparation of the financial statements for the year ended 31 December 2022 are consistent with those followed in the preparation of the Company's financial statements for the year ended 31 December 2021, except for the adoption of new standards effective as of 1 January 2022. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The Company applies, for the first time, certain amendments, the nature and effect of these changes are disclosed below:

- COVID-19-Related Rent Concessions beyond 30 June 2021 - Amendment to IFRS 16 '*Leases*'.
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*'.
- Proceeds before Intended Use – Amendments to IAS 16 '*Property, Plant and Equipment*'.
- Subsidiary as a first-time adopter of International Financial Reporting Standards - Amendments to IFRS 1 '*First-time Adoption of IFRS*'.
- References to the Conceptual Framework – Amendments to IFRS 3 '*Business Combinations*'.
- Taxation in fair value measurements of Agricultural Products – Amendment to IAS 41 '*Agriculture*'.

These amendments had no impact on the financial statements of the Company.

5 CASH AND CASH EQUIVALENTS

	31 December	31 December
	2022	2021
	SR	SR
Cash on hand	22,198	23,750
Cash at bank	71,674,539	100,652,619
Time deposit	200,000,000	-
	271,696,737	100,676,369

The time deposit has an original maturity of 3 months and carry commercial profit rate. The time deposit is not subject to any restrictions.

6 PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December	31 December
	2022	2021
	SR	SR
Prepaid expenses	12,978,379	14,921,711
Advances to suppliers	2,681,323	1,697,508
Advances to employees	230,559	209,134
Advance payment against VAT	50,000	50,000
Others	57,945	1,312,470
	15,998,206	18,190,823

TAAJEER FINANCE LEASE COMPANY

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NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2022****7 NET INVESTMENT IN FINANCE LEASE**

	31 December 2022	31 December 2021
	<i>SR</i>	<i>SR</i>
Gross investment in finance lease	1,354,722,038	1,136,903,260
Less: unearned finance income	(352,078,123)	(287,463,510)
	1,002,643,915	849,439,750
Less: allowance for expected credit losses	(42,643,441)	(48,960,545)
Net investment in finance lease	960,000,474	800,479,205

7.1 Movement in allowance for expected credit losses

	2022	2021
	<i>SR</i>	<i>SR</i>
At the beginning of the year	48,960,545	36,851,929
Write offs	(18,834,925)	(5,952,566)
Allowance related to derecognized receivables	(731,629)	(858,752)
Provided during the year	13,249,450	18,919,934
	42,643,441	48,960,545

7.2 Ageing of gross finance lease receivables

	2022	2021
	<i>SR</i>	<i>SR</i>
Not due	1,303,198,591	1,093,031,470
1 - 3 months over due	24,164,445	14,693,701
4 - 6 months over due	10,398,969	9,928,296
7 - 12 months over due	8,239,173	12,491,636
Over 12 months over due	8,720,860	6,758,157
	1,354,722,038	1,136,903,260

7.3 Portfolio analysis

The Company finances the sale of assets to its customers through Ijarah and Murabaha. Under Ijarah, the legal ownership of the financed asset is retained by the Company while under Murabaha legal ownership is transferred to the customer. The net investment portfolio of the Company as of 31 December is as follows:

	<i>31 December 2022</i>			
	<i>Gross investment</i>	<i>Unearned finance income</i>	<i>Allowance for expected credit loss</i>	<i>Net investment</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Ijarah	1,326,260,111	(348,263,073)	(38,261,762)	939,735,276
Murabaha	28,461,927	(3,815,050)	(4,381,679)	20,265,198
	1,354,722,038	(352,078,123)	(42,643,441)	960,000,474

TAAJEER FINANCE LEASE COMPANY

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NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2022****7 NET INVESTMENT IN FINANCE LEASE (continued)****7.3 Portfolio analysis (continued)**

	<i>31 December 2021</i>			
	<i>Gross</i>	<i>Unearned</i>	<i>Allowance for</i>	<i>Net investment</i>
	<i>investment</i>	<i>finance income</i>	<i>expected credit</i>	
	<i>SR</i>	<i>SR</i>	<i>loss</i>	
<i>SR</i>	<i>SR</i>	<i>SR</i>		
Ijarah	1,105,461,829	(282,967,477)	(44,741,386)	777,752,966
Murabaha	31,441,431	(4,496,033)	(4,219,159)	22,726,239
	<u>1,136,903,260</u>	<u>(287,463,510)</u>	<u>(48,960,545)</u>	<u>800,479,205</u>

7.4 Maturity analysis of net investment in finance lease is as follows:

	<i>31 December 2022</i>			
	<i>Within 1 year</i>	<i>Non-current</i>		<i>Total</i>
		<i>1 to 3 years</i>	<i>Over 3 year</i>	
		<i>SR</i>	<i>SR</i>	
Gross investment in finance lease	557,148,445	450,291,259	347,282,334	1,354,722,038
Less: unearned finance income	(136,915,916)	(156,125,260)	(59,036,947)	(352,078,123)
Net investment in finance lease	<u>420,232,529</u>	<u>294,165,999</u>	<u>288,245,387</u>	<u>1,002,643,915</u>

	<i>31 December 2021</i>			
	<i>Within 1 year</i>	<i>Non-current</i>		<i>Total</i>
		<i>1 to 3 years</i>	<i>Over 3 year</i>	
		<i>SR</i>	<i>SR</i>	
Gross investment in finance lease	425,509,974	366,034,855	345,358,431	1,136,903,260
Less: unearned finance income	(111,700,108)	(123,642,062)	(52,121,340)	(287,463,510)
Net investment in finance lease	<u>313,809,866</u>	<u>242,392,793</u>	<u>293,237,091</u>	<u>849,439,750</u>

7.5 Securitized receivables

The Company has entered into purchase and service agreements (the 'Agreements') with local banks in respect of securitization of certain finance leases (the 'receivables').

Under the terms of the purchase and service agreements, the Company first sells the eligible receivables to banks and then manages them on behalf of the banks as an agent for a monthly fee as per the terms of the Agreements.

During the year ended 31 December 2022, the Company sold SR 103.8 million (31 December 2021: SR 140.9 million) of its net receivables and the total amount received from the banks in respect of such sale was SR 126.1 million (31 December 2021: SR 187.8 million). Upon sale, the Company derecognises the receivables from its books and recognises the difference as either gain or loss on derecognition of receivables.

The followings are the significant terms of agreement:

- a) The agreements are supported by a "cash flow statement" which stipulates the principal amount and the monthly receivables falling due. Under the terms of the agreements, the Company, in the capacity of an agent, settles to the bank a monthly amount based on the cash flow statement. The amount of the next month's repayment is recognized as a liability and included in 'payable under purchase and agency agreement' (see note 11).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

7 NET INVESTMENT IN FINANCE LEASE (continued)

7.5 Securitized receivables

- b) A reserve is maintained, which is to be distributed at the end of the term of the agreement after deducting the actual defaults and discounts due to premature terminations. The balance in the reserve account after deducting the actual defaults and discounts shall be retained by the Company as deferred consideration on sale of receivables. Any shortfall in the reserve account is to be borne by the Bank.

During the year ended 31 December 2022, the Company recognized a net gain amounting to SR 22.1 million (2021: SR 33.7 million) on derecognition of receivables sold to the banks under the Agreements.

The present value of deferred consideration receivable is calculated by deducting the present value of expected defaults and discounts to be incurred over the life of the agreement from the present value of reserve amount to be received per the cash flow statement. This represents the net deferred consideration receivable by the Company under the Agreements calculated as follows:

	31 December 2022	31 December 2021
	SR	SR
Present value of deferred consideration receivable	70,192,676	55,999,911
Less: allowance for expected defaults	(11,578,186)	(9,929,558)
Net deferred consideration receivable	58,614,490	46,070,353

The Company's net servicing assets and related liabilities are calculated separately for each agreement by calculating the present value of servicing assets, as per the terms of the agreement and by estimating the present value of servicing liability and related provisions. The net amount is classified as a net servicing asset or a net servicing liability on the statement of financial position. This has been presented as follows:

	31 December 2022	31 December 2021
	SR	SR
Present value of servicing asset	16,935,390	18,960,513
Less: Present value of servicing liability	(23,306,610)	(35,899,294)
Net servicing liability	(6,371,220)	(16,938,781)

The present value of net deferred consideration receivable and the present value of net servicing liability is calculated by using a discount rate ranging from 4.50% to 7.58% (2021: 4.84% to 7.58%).

8 EQUITY INVESTMENTS AT FVTOCI

It represents the investment in the equity of Saudi Finance Leasing Contract Registry Company "SIJIL" established under article 12 of the implementation regulations of the finance companies control regulation. It requires all finance companies operating in the Kingdom of Saudi Arabia to establish a joint stock company, after the approval of SAMA, for the purpose of establishing a database of finance lease contracts and enabling secure access to the data in the contracts register. The Company can only sell this investment with prior approval of SAMA.

The Company subscribed in 2.38% of the paid up capital amounting to SR 892,850 on 14 December 2017 (corresponding to 26 Rabi I 1439H). The management believe that the cost approximate the fair value.

The fair value of the investment is classified under level 3 of the fair value hierarchy.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

9 PROPERTY AND EQUIPMENT

	<i>Leasehold improvements</i>	<i>Furniture & fixtures</i>	<i>Computer equipment</i>	<i>Office equipment</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Cost:					
At 1 January 2021	1,112,621	950,915	4,247,888	539,369	6,850,793
Additions	213,203	63,741	1,627,427	99,405	2,003,776
At 31 December 2021	1,325,824	1,014,656	5,875,315	638,774	8,854,569
Additions	1,081,285	227,321	438,464	309,827	2,056,897
At 31 December 2022	2,407,109	1,241,977	6,313,779	948,601	10,911,466
Accumulated depreciation:					
At 1 January 2021	701,280	270,282	1,582,017	130,777	2,684,356
Charge for the year	245,640	98,988	1,212,869	79,119	1,636,616
At 31 December 2021	946,920	369,270	2,794,886	209,896	4,320,972
Charge for the year	325,848	119,183	1,522,617	106,567	2,074,215
At 31 December 2022	1,272,768	488,453	4,317,503	316,463	6,395,187
Net book values:					
31 December 2022	1,134,341	753,524	1,996,276	632,138	4,516,279
31 December 2021	378,904	645,386	3,080,429	428,878	4,533,597

10 INTANGIBLE ASSETS

	2022	2021
	<i>SR</i>	<i>SR</i>
Cost:		
At 1 January	6,961,180	6,380,864
Additions	503,638	580,316
At 31 December	7,464,818	6,961,180
Accumulated amortization:		
At 1 January	4,341,023	3,305,874
Charge for the year	1,153,729	1,035,149
At 31 December	5,494,752	4,341,023
Net book value	1,970,066	2,620,157

11 TRADE AND OTHER PAYABLES

	31 December 2022	31 December 2021
	<i>SR</i>	<i>SR</i>
Payables to suppliers of vehicles	64,911,742	65,938,291
Payable under purchase and agency agreement (Note 7)	103,039,148	76,832,531
Accrued expenses	11,144,937	8,490,026
Advance from customers	7,200,363	7,773,787
Other payables	9,296,320	8,651,330
	195,592,510	167,685,965

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NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2022****12 ZAKAT PAYABLE****Basis for Zakat:**

The Company is subject to the Regulations of the Zakat, Tax and Customs Authority (ZATCA) in the Kingdom of Saudi Arabia.

Zakat charged to the profit or loss:

	<u>2022</u>	<u>2021</u>
	<i>SR</i>	<i>SR</i>
Current zakat charges for the period	8,982,073	3,115,007
Charges related to prior periods	3,610,772	-
	<u>12,592,845</u>	<u>3,115,007</u>

The movement in the zakat payable is as follows:

	<u>2022</u>	<u>2021</u>
	<i>SR</i>	<i>SR</i>
At 1 January	3,002,968	4,652,343
Charge for the year	12,592,845	3,115,007
Payments	(6,613,740)	(4,764,382)
31 December	<u>8,982,073</u>	<u>3,002,968</u>

Status of certificates and assessments:

In accordance with the final zakat settlement agreement with the Zakat, Tax and Customs Authority (ZATCA), Taajeer Finance has settled the zakat liability agreed and finalized the years up till 2018. The zakat returns of the years 2019 to 2021 were submitted and are still under review by ZATCA.

13 LOANS

The loans comprise the following:

	<u>31 December</u>	<u>31 December</u>
	<u>2022</u>	<u>2021</u>
	<i>SR</i>	<i>SR</i>
Commercial loans (see note (a) below)	451,003,204	416,934,326
Governmental loans (see note (b) below)	92,243,391	52,568,845
Loan from other financial institutions (see note (c) below)	54,000,000	36,000,000
	<u>597,246,595</u>	<u>505,503,171</u>

a) Commercial loans

Commercial loans were obtained from local financial institutions to finance working capital requirements. These loans carry commercial profit rate. The loans are guaranteed with corporate guarantees and assignment of net investments in finance lease. Commercial loans as at 31 December 2022 are presented net of a compensating balance of SR 19,654,083 (31 December 2021 : SR 19,539,999).

b) Governmental loan

The Company has obtained loans at below-market interest rate from governmental bodies under a scheme to support small and medium sized entities. The Company recognized the loan initially at its fair value using a discount factor of 3.25% - 7.5% and recognized an unearned government grant being the difference between the amount received and the fair value of the loan. The Company earns the government grant on its utilization of funds obtained from the governmental bodies to finance small and medium sized entities on a pro-rata basis.

c) Loans from other financial institution

The Company has obtained loans from other financial institution to finance working capital requirements. The loans are guaranteed with corporate guarantee and assignment of net investments in finance lease (note 24).

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NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2022****13 LOANS (CONTINUED)****Profit rate swap**

The Company has entered into a profit rate swap (the “Contract”) with local banks to manage exposure to profit rate fluctuations. The notional amount of the Contract as at 31 December 2022 is SR 279 million (31 December 2021 :SR 368 million).

The Company has accounted for the Contract as an effective cash flow hedge. Accordingly, the Company recorded the change in the fair value of the Contract through other comprehensive income.

14 SHARE CAPITAL AND RESERVES**14.1 SHARE CAPITAL**

The capital of the Company as at 31 December 2022 and 2021 comprised 20,000,000 shares stated at SR 10 per share. The shareholders of the Company as at 31 December 2022 and 2021 and their respective shareholding is as follows:

	31 December 2022	31 December 2021
	SR	SR
Al Ahdaf Al Mumaizah Company	192,000,000	192,000,000
Taajeer Gulf Company	2,000,000	2,000,000
Taajeer Global Company	2,000,000	2,000,000
Taajeer International Company	2,000,000	2,000,000
Taajeer National Company for Auto Maintenance and Integrated Service Limited	2,000,000	2,000,000
	<u>200,000,000</u>	<u>200,000,000</u>

14.2 PROPOSED CAPITAL

The shareholders of the Company approved increasing the capital of the Company from SR 200,000,000 to SR 500,000,000 by transferring SR 100,000,000 from retained earnings and SR 200,000,000 cash payment from the current shareholders.

On 5 January 2023, the Company completed legal procedures for the capital increase.

14.3 STATUTORY RESERVE

As required by the Company's bylaws, the Company transfers 10% of its profit for the year to the statutory reserve until the reserve equals 30% of capital. The reserve is not available for distribution as dividends.

15 CAPITAL MANAGEMENT

For the purpose of capital management, capital includes capital, statutory reserve and all other equity reserves attributable to the shareholders of the Company. The primary objective of capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, increase equity financing or debt financing.

16 EARNINGS PER SHARE

The basic and diluted earnings per share from net profit is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. There was no dilutive component affecting the weighted average number of ordinary shares.

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NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2022****17 EMPLOYEE TERMINATION BENEFITS**

The movement in the provision for employees' termination benefits, a defined benefit plan, during the year is as follows:

	<u>2022</u>	<u>2021</u>
	<i>SR</i>	<i>SR</i>
1 January	2,969,058	2,482,879
Expense charged to profit or loss	951,621	763,986
Actuarial remeasurement charged to OCI	46,622	56,364
Payments	(284,649)	(334,171)
31 December	<u>3,682,652</u>	<u>2,969,058</u>

The expense charged to profit or loss comprise of:

	<u>2022</u>	<u>2021</u>
	<i>SR</i>	<i>SR</i>
Current service cost	880,731	717,361
Interest cost	70,890	46,625
Cost recognized in profit or loss	<u>951,621</u>	<u>763,986</u>

Significant actuarial assumptions

	<u>As at 31 December</u>	
	<u>2022</u>	<u>2021</u>
Discount factor used	6.00%	2.50%
Salary increase rate	6.00%	3.00%
Rates of employee turnover	Moderate	Moderate

Sensitivity analysis of key actuarial assumptions are as follows:

	<u>2022</u>		<u>2021</u>	
	%	<i>SR</i>	%	<i>SR</i>
Discount rate				
Increase	+ 1%	3,480,599	+ 1%	2,808,395
Decrease	- 1%	3,908,447	- 1%	3,171,948
Salary growth rate				
Increase	+ 1%	3,906,215	+ 1%	3,171,043
Decrease	- 1%	3,478,778	- 1%	2,805,772

18 FINANCE INCOME

	<u>2022</u>	<u>2021</u>
	<i>SR</i>	<i>SR</i>
Income from Ijarah	80,518,127	69,149,732
Income from Murabaha	2,385,221	1,359,245
	<u>82,903,348</u>	<u>70,508,977</u>

It represents income earned on investment in finance lease at the profit rate implicit in the lease determined at the inception of the contract.

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NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2022****19 FINANCE COSTS**

	<u>2022</u>	<u>2021</u>
	<i>SR</i>	<i>SR</i>
Interest on borrowings	25,403,371	24,107,456
Interest on termination benefits	70,890	46,625
	<u>25,474,261</u>	<u>24,154,081</u>

20 OTHER OPERATING INCOME, NET

	<u>2022</u>	<u>2021</u>
	<i>SR</i>	<i>SR</i>
Administrative fee income	4,032,975	5,568,750
Insurance paid, net	(2,323,227)	(1,348,321)
Rebate on purchase of vehicles	31,736,921	15,158,252
Recoveries of amount previously written off	2,360,816	1,150,976
Other	4,643,351	3,361,457
	<u>40,450,836</u>	<u>23,891,114</u>

21 SELLING AND MARKETING EXPENSES

	<u>2022</u>	<u>2021</u>
	<i>SR</i>	<i>SR</i>
Employee benefits	5,041,429	4,978,292
Salesmen commission	5,113,060	8,243,853
Rent for short-term leases	744,484	181,072
Collection and incentives expense	4,512,075	2,668,338
Advertisement	1,003,982	1,265,577
	<u>16,415,030</u>	<u>17,337,132</u>

22 GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2022</u>	<u>2021</u>
	<i>SR</i>	<i>SR</i>
Employee benefits	20,008,312	17,759,075
Provision on closed contracts	2,144,938	4,171,715
Professional charges	1,349,144	2,091,372
Depreciation and amortization	3,227,944	2,671,765
Rent for short-term leases	637,431	1,102,178
Communication	911,150	740,174
Collection and incentives expense	895,186	3,044,672
Other	9,768,906	5,974,382
	<u>38,943,011</u>	<u>37,555,333</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

23 EMPLOYEE BENEFITS, DEPRECIATION, AMORTISATION, AND RENT INCLUDED IN PROFIT OR LOSS

	<u>2022</u>	<u>2021</u>
	<i>SR</i>	<i>SR</i>
Included in selling and marketing expenses:		
Employee benefits	5,041,429	4,978,292
Rent on short-term leases	744,484	181,072
Included in general and administrative expenses:		
Employee benefits	20,008,312	17,759,075
Depreciation	2,074,215	1,636,616
Amortisation	1,153,729	1,035,149
Rent on short-term leases	637,431	1,102,178

24 RELATED PARTY DISCLOSURES

The following table provides the total amount of material transactions that have been entered into with related parties and their related balances:

<u>Related party</u>	<u>Nature of transaction</u>	<u>2022</u>	<u>2021</u>
		<i>SR</i>	<i>SR</i>
Shareholders			
Taajeer International Company	Purchase of vehicles	141,330,604	178,885,153
Taajeer National Company	Vehicle maintenace	898,224	521,703
Sisters companies			
Awaed Arabia Company	Debt collection services	3,466,494	3,390,958
Other			
Alawal Capital Company	Loans obtained	54,000,000	36,000,000
	Interest charge	3,065,000	1,125,000
Due from a related party comprise the following:			
		31 December	31 December
		2022	2021
		<i>SR</i>	<i>SR</i>
Taajeer Group Company		-	144,689
Taajeer International Company		20,959,730	-
		20,959,730	144,689
Due to related parties comprise the following:			
		31 December	31 December
		2022	2021
		<i>SR</i>	<i>SR</i>
Taajeer International Company		-	14,334,757
Taajeer National Company		1,316,957	437,179
		1,316,957	14,771,936

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022****24 RELATED PARTY DISCLOSURES (continued)****Loan from a related party comprise the following:**

	<i>31 December</i> <u>2022</u>	<i>31 December</i> <u>2021</u>
	<i>SR</i>	<i>SR</i>
Al Awwal Capital (see note (a) below)	54,000,000	36,000,000

a) The loans from a related party is presented under loans (see note13).

Compensation of key management personnel of the Company

	<u>2022</u>	<u>2021</u>
	<i>SR</i>	<i>SR</i>
Short term employee benefits	4,623,756	4,299,017
Termination benefits	998,374	691,153
Total compensation of key management personnel	5,622,130	4,990,170

25 COMMITMENTS AND CONTINGENCIES

As at 31 December 2022, the Company had no contingent liabilities and commitments (2021: nil).

26 FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS**26.1 Fair Value Measurements of Financial Instruments**

As at 31 December 2022, apart from the investments which are carried at fair value (note 8), there are no other financial instruments held by the Company that are measured at fair value.

26.2 Risk Management of Financial Instruments

The Company's activities expose it to a variety of financial risks, credit risk, liquidity risk and market price risk.

Credit Risk:

Credit risk is the risk that one party to financial instruments will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk on the financial assets as follows.

	<i>31 December</i> <u>2022</u>	<i>31 December</i> <u>2021</u>
	<i>SR</i>	<i>SR</i>
Net investment in finance lease	960,000,474	800,479,205
Net deferred consideration receivable	58,614,490	46,070,353
Bank balances	271,674,539	100,652,619
	1,290,289,503	947,202,177

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NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2022****26 FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)****26.2 Risk Management of Financial Instruments (continued)**

The carrying amount of financial assets represents the maximum credit exposure.

The above balances except for net investment in finance lease are maintained with Banks and Insurance Companies with sound credit ratings.

a) *Credit quality analysis*

The following table sets out information about the credit quality of net investment in finance lease measured at amortized cost as at 31 December 2022 and 2021:

Description	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
	SR	SR	SR	SR
Net carrying amount before				
Expected credit loss	870,740,417	40,344,124	91,559,374	1,002,643,915
Expected credit loss	2,982,530	376,032	39,284,878	42,643,440
	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
	SR	SR	SR	SR
Net carrying amount before				
Expected credit loss	735,864,332	24,604,459	88,970,959	849,439,750
Expected credit loss	4,210,656	1,860,807	42,889,082	48,960,545

b) *Amounts arising from ECL - significant increase in credit risk*

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

26 FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

26.2 Risk Management of Financial Instruments (continued)

Credit Risk (continued):

Credit risk stages

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

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

a) Generating the term structure of PD

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

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro- economic factors including GDP growth, benchmark profit rates, unemployment etc. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on 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 (see discussion below on incorporation of forward-looking information). The Company then uses these forecasts to adjust its estimates of PDs.

b) Determining whether the credit risk has increased significantly

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

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

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

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 90 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

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 90 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2 and 3).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

26 FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

26.2 Risk Management of Financial Instruments (continued)

Credit Risk (continued):

c) *Modified financial assets*

The contractual terms of a financing 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 is completed on the basis of the approved staging criteria.

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

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of leasing and instalments covenants. The lease portfolio is subject to the forbearance policy.

d) *Definition of 'Default'*

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

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

e) *Incorporation of forward looking information*

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the 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 of Saudi Arabia and selected private sector and academic forecasters.

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

f) *Measurement of ECL*

The key inputs into the measurement of ECL are the term structure of the following parameters. These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

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NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2022****26 FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)****26.2 Risk Management of Financial Instruments (continued)****Credit Risk (continued):***f) Measurement of ECL (continued)*

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

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the recoveries and costs incurred in the process to arrive at the estimates. The fair value of collateral against net investment in finance lease as at 31 December 2022 SR 1,206 Million.

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 net carrying amount before ECL.

Liquidity Risk:

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Following are the contractual maturities at the end of the reporting period of financial liabilities.

	31 December 2022			
	Carrying	Less than 1	1 to 3 years	Over 3 years
	amount	year		
	SR	SR	SR	SR
Financial Liabilities				
Trade and other payables	195,592,510	195,592,510	-	-
Due to related parties	1,316,957	1,316,957	-	-
Loans	597,246,595	242,294,779	216,292,790	138,659,026
	794,156,062	439,204,246	216,292,790	138,659,026
	31 December 2021			
	Carrying	Less than 1	1 to 3 years	Over 3 years
	amount	year		
	SR	SR	SR	SR
Financial liabilities				
Trade and other payables	167,685,965	167,685,965	-	-
Due to related parties	14,771,936	14,771,936	-	-
Loans	505,503,171	178,560,961	315,422,743	11,519,467
	687,961,072	361,018,862	315,422,743	11,519,467

Liquidity risk is managed by monitoring on a regular basis that sufficient funds and credit facilities are available to meet the Company's future commitments.

Market Risk:

Market price risk is the risk that value of a financial instrument will fluctuate as a result of changes in market prices, such as interest rates, and will affect the Company's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

26 FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

26.2 Risk Management of Financial Instruments (continued)

Currency Risk:

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that's not the Company's currency. The Company exposure to foreign currency risk is primarily limited to transactions in United State Dollars ("USD"). The Company's management believes that their exposure to currency risk associated with USD is limited as the Company's currency is pegged to USD. The fluctuation in exchange rates against other currencies is monitored on a continuous basis.

Interest Rate Risk

Interest rate risk is the exposure associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. Variable rate financial liabilities as at 31 December 2022 amounted SR 505,003,204 (31 December 2021: SR 452,934,326).

An increase of 100 basis points in the interest rate would have increased finance costs for the year ended 31 December 2022 by SR 5 million (2021: SR 4.5 million).

Share Price Risk

The Company's investments in equity instruments of other companies are subject to market price risk arising from uncertainty about the future values of such investments.

As at 31 December 2022, the Company's investments in equity instruments of other companies which are recorded at fair value was SR 892,850 (31 December 2021: SR 892,850). Therefore, share price risk is not significant to the Company.

27 SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Company in preparing its financial statements:

FAIR VALUE MEASUREMENT

The Company measures financial instruments, such as investment in equity instruments, at fair value at each reporting date.

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2022

27 SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE MEASUREMENT (continued)

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

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

FOREIGN CURRENCIES

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company at the spot rate ruling at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. When significant parts of property and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- Leasehold improvements 4 years
- Furniture and fixtures 10 years
- Office equipment 7 years
- Computer equipment 3 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets are not capitalized and expenditure is recognized in the statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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27 SIGNIFICANT ACCOUNTING POLICIES (continued)

INTANGIBLE ASSETS (continued)

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU (Cash Generating Unit) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

VEHICLE AVAILABLE FOR SALE

Vehicles available for lease represents vehicles repossessed on termination of lease contracts and are stated at the net realizable value. Net realizable value represents the estimated selling price of the vehicles less the costs necessary to make the sale. Any impairment loss arising as a result of carrying these assets at their net realizable values is charged to profit or loss.

LEASES

The determination of whether an arrangement is, or contains, a lease is decided at the inception date. An arrangement is, or contains, a lease if it grants the right to control a particular asset or assets for a period of time in exchange for compensation.

Company as a lessee

A- Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognized right-of-use assets are depreciated on a straight-line basis over its estimated useful life.

B- Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

TAAJEER FINANCE LEASE COMPANY

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

27 SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASES (continued)

Company as a lessor

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

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

Short-term leases are leases with a lease term of 12 months or less. Low value assets are items that do not meet the Company's capitalization threshold and are considered to be insignificant for the statement of financial position for the Company as a whole. Payments for short-term leases and leases of low value assets are recognized on a straight-line basis in the statement of profit or loss.

Leases where the Company substantially transfers all risks and rewards of ownership are classified as finance leases. The finance lease is recognized at net investment value which represents the present value of gross lease payments discounted at profit rate implicit in the lease. The difference between the gross investment and the net investment is recognized as unearned finance income and unearned insurance income.

Leases where the Company does not substantially transfer all risks and rewards of ownership are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue once they are earned.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Company's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the statement of profit or loss in those expense categories consistent with the function of the impaired asset. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Such reversal is recognized in the statement of profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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27 SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at amortized cost

After initial measurement, financial assets at amortized cost are measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

Debt instruments at fair value through OCI

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

Equity instruments designated at fair value through OCI

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity investments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

Derecognition

A financial asset is primarily derecognized when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

27 SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL ASSETS (continued)

Impairment of financial assets

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The company has adopted the general approach to calculate ECL for its portfolio through the computation and subsequent application of risk estimates such as probability of default (PD), loss given default (LGD) and exposure at default (EAD).

PROVISIONS

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

EMPLOYEE TERMINATION BENEFITS

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2022

27 SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES (continued)

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

REVENUE RECOGNITION

Leasing

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

Administrative fee income

Fee income comprise of administrative fee and vehicle registration fee. Fee income is recognized immediately upon execution of the agreements with the customers.

Insurance reimbursed/(paid), net

As part of the periodic installments due from customers, the Company charges customers for insurance cover on the vehicles under lease contracts. Insurance charges represent cost of insurance (premium). Consequently, premiums are paid to the Insurers for the insurance cover for the vehicles under lease. Insurance income less any directly attributable expenses is recognized over the insured period of leased vehicles.

Rebate on purchase of financed asset

The Company obtains rebates on purchases from suppliers of leased assets. Rebate income is recognized when rebate is received from supplier on purchases made during the year.

Other operating income

Other operating income comprises additional fee charged on early settlement of lease contract and repossession of cars and customer credit assessment. The income is recognized on accrual basis.

GOVERNMENT GRANT

The Company recognizes a government grant related to income, if there is reasonable assurance that it will be received and the Company will comply with the conditions associated with the grant. The benefit of a government loan at a below-market rate of interest is treated as a government grant related to income. The below-market rate loan is recognized and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. The government grant is recognized in the statement of profit or loss on a systematic basis over the period in which the Company recognizes as expenses the related costs for which the grant is intended to compensate. Government grants that are received as compensation for losses already incurred by the Company with no future related costs are recognized in profit or loss in the same period.

EXPENSES

Expenses related to operations are allocated on a consistent basis to selling and marketing expenses and general and administration expenses in accordance with consistent allocation factors determined as appropriate by the Company.

ZAKAT

The Company provide for zakat in accordance with the regulations of the Zakat, Tax and Customs Authority (ZATCA). The provision is charged to profit or loss.

TAAJEER FINANCE LEASE COMPANY

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

27 SIGNIFICANT ACCOUNTING POLICIES (continued)

ZAKAT(continued)

Uncertain zakat position

Differences that may arise at the finalization of an assessment are accounted for when the assessment is finalized with GAZT.

Value added tax

Revenues, expenses and assets are recognized net of the amount of value added tax, except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

28 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are beginning to experience a new wave of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government.

The Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the problems effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. This has entailed reviewing specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required.

The prevailing economic conditions post lock down, do require the Company to continue to revise certain inputs and assumptions used for the determination of expected credit losses ("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 in ECL estimation. During the year, the Company has made certain adjustment to scenario weightings and macroeconomic factors used by the Company in the estimation of expected credit losses.

The Company's ECL model continues to be sensitive to macroeconomic variables and scenario weightings. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental and the Company will continue to reassess its position and the related impact on a regular basis.

SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro, Small and Medium Enterprises ("MSMEs") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

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

TAAJEER FINANCE LEASE COMPANY

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

28 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS (continued)

SAMA support programs and initiatives (continued)

Private Sector Financing Support Program ("PSFSP") (continued)

As part of the deferred payments program launched by SAMA in March 2020, the Company is required to defer payments on financing facilities to those companies that qualify as SMEs. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company has effected the payment reliefs by deferring the instalments falling due within the period from March 2020 to September 2020 for a period of six months, and from October 2020 to December 2020 for the three months, and from January 2021 to March 2021 for three months period. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement.

In order to compensate the related cost that the Company is expected to incur under the SAMA program, the Company received SR 7.5 million, SR 5.7 million and SR 8.8 million of profit free loan from SAMA during the years 2020, 2021 and 2022. The amount was due to be repaid to SAMA over 1.5 year in equal monthly instalments, with initial grace period of 6 months. During 2021, SAMA issued guidelines to management for deferment of loan payment till maturity i.e. to pay one time full amount on maturity date. Details of the amount received from SAMA are as follows:

- In 2020, an amount of SR 7.5 million, received against net investment in finance lease, has been recognized as "government loan" and accordingly, the Company has recognized an amount of SR 333 thousand as grant income to offset the modification losses for which the grant has been provided by SAMA (note 13).
- In 2021, an amount of SR 5 million, received against net investment in finance lease, has been recognized as "government loan" and accordingly, the Company has recognized an amount of SR 298 thousand as grant income to offset the modification losses for which the grant has been provided by SAMA (note 13).
- During the year ended 31 December 2022, an amount of SR 8.8 million, received against net investment in finance lease, has been recognized as "government loan" and accordingly, the Company has recognized an amount of SR 415 thousand as grant income to offset the modification losses for which the grant has been provided by SAMA (note 13).

29 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards when they become effective. The following new and amended standards are not expected to have a significant impact on the Company's financial statements:

- Deferred Tax related to Assets and Liabilities arising from a single transaction (amendments to IAS 12).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1 "Presentation of Financial Statements").
- IFRS 17 "Insurance Contracts" and amendments related.
- Disclosure of Accounting Policies (Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 "Exercise judgments about materiality")
- Definition of Accounting Estimates (Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors").

30 DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Company's board of directors on 6 Sha'ban 1444H corresponding to 26 February 2023.