

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**Interim condensed financial statements**  
**For the period ended 30 June 2021**  
together with the  
**Independent auditor's review report**

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**INTERIM CONDENSED FINANCIAL STATEMENTS**  
As at 30 June 2021

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## KPMG Professional Services

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## كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار  
صندوق بريد ٩٢٨٧٦  
الرياض ١١٦٦٣  
المملكة العربية السعودية  
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

# Independent auditor's review report on the interim condensed financial statements

To the shareholder of Saudi Fransi for Finance Leasing

## Introduction

We have reviewed the accompanying 30 June 2021 interim condensed financial statements of **Saudi Fransi for Finance Leasing** ("the Company"), which comprises:

- the interim condensed statement of financial position as at 30 June 2021;
- the interim condensed statement of comprehensive income for the three months and six months periods ended 30 June 2021;
- the interim condensed statement of changes in equity for the six months period ended 30 June 2021;
- the interim condensed statement of cash flows for the six months period ended 30 June 2021; and
- the notes to the interim condensed financial statements.

Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with the International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

## Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410: *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2021 interim condensed financial statements of **Saudi Fransi for Finance Leasing** are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

## KPMG Professional Services

**Dr. Abdullah Hamad Al Fozan**  
License no: 348



Riyadh: 25 Dhul Hijjah 1442H  
Corresponding to: 4 August 2021

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**  
As at 30 June 2021  
(SAR '000)

	<u>Notes</u>	<b>30 June 2021</b> <i>(Unaudited)</i>	31 December 2020 <i>(Audited)</i>
<b><u>ASSETS</u></b>			
Cash and cash equivalents		17,514	7,554
Net investment in finance leases	5	2,754,038	2,507,492
Prepayments		103,877	70,581
Other assets	6	31,896	16,401
Investment at FVOCI		893	893
Property, equipment and right of use assets		4,107	2,912
Intangible assets		179	248
<b>Total assets</b>		<b><u>2,912,504</u></b>	<b><u>2,606,081</u></b>
<b><u>SHAREHOLDER'S EQUITY AND LIABILITIES</u></b>			
<b>Liabilities</b>			
Long-term loan	9	1,741,532	1,529,245
SAMA deposit, net	17	16,469	10,119
Accounts payable	10	113,881	80,627
Advance from customers		79,247	75,126
Due to related parties	8.b	33,567	30,951
Negative fair value of derivatives	7	30,696	42,347
Accrued expenses and other liabilities		15,361	18,693
Employees' end of service benefits		7,406	6,882
Provision for zakat and income tax	11	16,797	23,573
<b>Total liabilities</b>		<b><u>2,054,956</u></b>	<b><u>1,817,563</u></b>
<b>Shareholder's equity</b>			
Share capital		500,000	500,000
Statutory reserve		37,461	37,461
Other reserves		(30,190)	(41,842)
Retained earnings		350,277	292,899
<b>Total shareholder's equity</b>		<b><u>857,548</u></b>	<b><u>788,518</u></b>
<b>Total shareholder's equity and liabilities</b>		<b><u>2,912,504</u></b>	<b><u>2,606,081</u></b>

The accompanying notes (1) through (20) form an integral part of these interim condensed financial statements.

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
For the three-months and six-months periods ended 30 June 2021 (Unaudited)  
(SAR '000)

	<i>Notes</i>	For the three-months period ended		For the six-months period ended	
		30 June 2021	30 June 2020	30 June 2021	30 June 2020
<b>Revenue</b>					
Lease finance income		<b>36,031</b>	33,552	<b>69,927</b>	63,356
Fees income	12	<b>46,007</b>	47,740	<b>96,831</b>	98,039
		<b>82,038</b>	81,292	<b>166,758</b>	161,395
<b>Operating expenses</b>					
Fees expenses	12	<b>(32,485)</b>	(30,504)	<b>(65,961)</b>	(69,240)
Salaries and employee related expenses		<b>(7,954)</b>	(7,072)	<b>(15,556)</b>	(14,402)
Rent		-	(99)	-	(198)
Depreciation		<b>(235)</b>	(103)	<b>(445)</b>	(162)
Amortization		<b>(29)</b>	(68)	<b>(69)</b>	(121)
General and administration expenses		<b>(1,781)</b>	(1,317)	<b>(3,734)</b>	(2,648)
Financial charges		<b>(11,209)</b>	(12,450)	<b>(22,631)</b>	(25,623)
Reversal / (charge) for expected credit losses, net	5.1	<b>8,782</b>	(4,586)	<b>6,912</b>	(7,132)
		<b>(44,911)</b>	(56,199)	<b>(101,484)</b>	(119,526)
<b>Net operating income</b>		<b>37,127</b>	25,093	<b>65,274</b>	41,869
Other income		<b>1,536</b>	936	<b>2,883</b>	2,143
<b>Net income for the period before zakat and income tax</b>		<b>38,663</b>	26,029	<b>68,157</b>	44,012
Zakat and income tax	11	<b>(4,880)</b>	(12,990)	<b>(10,779)</b>	(16,101)
<b>Net income for the period</b>		<b>33,783</b>	13,039	<b>57,378</b>	27,911
<b>Other comprehensive income / (loss) for the period</b>					
<i>Items that may be reclassified to statement of income in subsequent periods:</i>					
Cash flow hedges – net change in fair value		<b>6,692</b>	(10,038)	<b>11,652</b>	(31,141)
<b>Total comprehensive income / (loss) for the period</b>		<b>40,475</b>	3,001	<b>69,030</b>	(3,230)

The accompanying notes (1) through (20) form an integral part of these interim condensed financial statements.

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**  
For the six-months period ended 30 June 2021 (Unaudited)  
(SAR '000)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
<b>For the period ended 30 June 2021</b>					
<b>Balance as at 1 January 2021</b>	<b>500,000</b>	<b>37,461</b>	<b>(41,842)</b>	<b>292,899</b>	<b>788,518</b>
Net income for the period	--	--	--	57,378	57,378
Other comprehensive income	--	--	11,652	--	11,652
<b>Balance as at 30 June 2021</b>	<b>500,000</b>	<b>37,461</b>	<b>(30,190)</b>	<b>350,277</b>	<b>857,548</b>
	<u>Share Capital</u>	<u>Statutory reserve</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
<b>For the period ended 30 June 2020</b>					
Balance at 1 January 2020	500,000	30,242	(19,308)	227,926	738,860
Net income for the period	--	--	--	27,911	27,911
Other comprehensive income	--	--	(31,141)	--	(31,141)
<b>Balance as at 30 June 2020</b>	<b>500,000</b>	<b>30,242</b>	<b>(50,449)</b>	<b>255,837</b>	<b>735,630</b>

The accompanying notes (1) through (20) form an integral part of these interim condensed financial statements.

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**INTERIM CONDENSED STATEMENT OF CASH FLOWS**  
For the six-months period ended 30 June 2021 (Unaudited)  
(SAR '000)

	<i>Notes</i>	<b>30 June 2021</b>	<b>30 June 2020</b>
<b>Cash flows from operating activities</b>			
Net income for the period before zakat and income tax		<b>68,157</b>	44,012
<i>Adjustments to reconcile net income to net cash generated from operating activities:</i>			
Depreciation		<b>445</b>	162
Amortization		<b>69</b>	121
(Reversal) / charge for expected credit losses, net	5.1	<b>(6,912)</b>	7,132
Employees' end of service benefits		<b>772</b>	731
Financing charges		<b>22,631</b>	25,623
		<b>85,162</b>	77,781
<b>Net increase in operating assets</b>			
Net investment in finance leases		<b>(239,634)</b>	(62,113)
Prepayments		<b>(32,998)</b>	(33,225)
Other assets		<b>(15,793)</b>	(7,638)
		<b>(288,425)</b>	(102,976)
<b>Net increase / (decrease) in operating liabilities</b>			
Accounts payable		<b>33,254</b>	1,373
Due to related parties		<b>2,616</b>	17,453
Advance from customers		<b>4,121</b>	2,661
Accrued expenses and other liabilities		<b>(3,078)</b>	(3,192)
		<b>36,913</b>	18,295
Zakat and income tax paid		<b>(17,555)</b>	--
Employees' end of service benefits paid		<b>(248)</b>	(102)
<b>Net cash used in operating activities</b>		<b>(184,153)</b>	(7,002)
<b>Cash flows from investing activities</b>			
Purchase of intangibles		--	(290)
Purchase of property and equipment		<b>(1,639)</b>	--
<b>Net cash used in investing activities</b>		<b>(1,639)</b>	(290)
<b>Cash flows from financing activities</b>			
Draw down of long-term loan		<b>415,000</b>	290,062
Payments of long-term loan		<b>(202,083)</b>	(251,250)
SAMA deposit received, net		<b>6,350</b>	--
Financial charges paid		<b>(23,241)</b>	(27,526)
Principal payment of lease liabilities		<b>(274)</b>	(289)
<b>Net cash generated from financing activities</b>		<b>195,752</b>	10,997
Net increase in cash and cash equivalents		<b>9,960</b>	3,705
Cash and cash equivalents at the beginning of the period		<b>7,554</b>	19,831
<b>Cash and cash equivalents at the end of the period</b>		<b>17,514</b>	23,536

The accompanying notes (1) through (20) form an integral part of these interim condensed financial statements.

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
For the three-months and six-months periods ended 30 June 2021  
(SAR '000)

**1. THE COMPANY AND NATURE OF OPERATIONS**

Saudi Fransi for Finance Leasing (“the Company”) is a Closed Joint Stock Company (“CJSC”) established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010320273 dated 25 Dhul Hijjah 1432H (corresponding to 21 November 2011).

As per the Saudi Central Bank (“SAMA”) directive, the Company obtained a license no. 201511/ ٣٨/ أش to practice finance activities. The objective of the Company is to provide lease financing for assets.

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

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

**2. BASIS OF PREPARATION**

**a) *Statement of compliance***

The interim condensed financial statements of the Company as at and for the period ended 30 June 2021 has been prepared in accordance with the International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Chartered and Professional Accountants (“SOCPA”).

**b) *Basis of measurement***

These interim condensed financial statements have been prepared on a going concern basis under the historical cost convention except for commission rate swaps and investment at fair value through other comprehensive income – equity instrument, which are measured at fair value. Further, employees’ end of service benefits are measured at present value of future obligations using the projected unit credit method.

The Company does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity.

**c) *Functional and presentation currency***

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

**3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS**

***Accounting standards issued but not yet effective***

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2021, but do not have a material impact on the interim condensed financial statements of the Company.

***New standards, interpretations and amendments adopted by the Company***

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments, which were effective from periods on or after 1 January 2021. The management has adopted these amendments and have determined that they do not have a material impact on the Company’s interim condensed financial statements.

- Amendments to IAS 1 - Presentation of financial statements, on classification of liabilities
- Amendments to IFRS 3 - Reference to the Conceptual Framework; and
- Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use;
- Amendments to IAS 37 - Onerous Contracts – Cost of Fulfilling a Contract
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8



**SAUDI FRANSI FOR FINANCE LEASING**  
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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
For the three-months and six-months periods ended 30 June 2021  
(SAR '000)

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the audited financial statements for the year ended 31 December 2020.

The financial statements of the Company as at and for the year ended 31 December 2020, were prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA.

**5. NET INVESTMENT IN FINANCE LEASES**

	<b>30 June 2021 (Unaudited)</b>		
	<b>Not later than one year</b>	<b>Later than one year and less than five years</b>	<b>Total</b>
Lease contract receivables	1,162,552	2,243,512	3,406,064
Unearned lease income	(198,537)	(382,348)	(580,885)
	964,015	1,861,164	2,825,179
<b>Provision for expected credit losses</b>	<b>5.1 (24,301)</b>	<b>(46,840)</b>	<b>(71,141)</b>
<b>Net investment in finance leases</b>	<b>939,714</b>	<b>1,814,324</b>	<b>2,754,038</b>

These leased assets carry profit rates ranging from 3% to 7% per annum (31 December 2020: 3% to 7%) and lease rentals are determined on the basis of implicit rate of profit based on the cash flows of the lease. The Company holds the title of the leased assets as a collateral against the finance leases.

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

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

	<b>For the period ended 30 June 2021 (Unaudited)</b>	<b>For the year ended 31 December 2020 Audited</b>
<b>Opening allowance for expected credit losses</b>	<b>91,875</b>	105,036
Reversal for the period / year	<b>(6,912)</b>	(1,768)
Write off	<b>(13,822)</b>	(11,393)
<b>Closing allowance for expected credit losses (note 5.2)</b>	<b>71,141</b>	91,875

5.2 This includes management overlays of SAR 4.78 million (31 December 2020: SAR 4.78 million) as detailed in note 17 of these interim condensed financial statements.

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
For the three-months and six-months periods ended 30 June 2021  
(SAR '000)

**5. NET INVESTMENT IN FINANCE LEASES (CONTINUED)**

The PD, EAD and LGD models are subject to the Parent model risk policy that stipulates periodic model monitoring and defines approval procedures and authorities according to model materiality.

During the period, the Company has made following material changes in its ECL methodology to reflect the validation exercise undertaken by the Company:

- a) the Company has developed its macro-economic PD model based on appropriate internal and external data.
- b) the LGD model was refined based on updated data set.
- c) Certain inputs to the PD model has been refreshed based on the recalibration exercise.

The above model updates resulted in additional ECL of SAR 4.4 million which has been recorded during the period ended 30 June 2021.

**6. OTHER ASSETS**

	<b>30 June 2021 (Unaudited)</b>	31 December 2020 (Audited)
VAT receivable, net	15,390	8,879
Dealers receivable	4,315	1,955
Other receivables (note 6.1)	12,191	5,567
	<u><u>31,896</u></u>	<u><u>16,401</u></u>

6.1 This account mainly relates to insurance receivables amounting to SAR 9.4 million (31 December 2020: SAR 4.6 million).

**7. DERIVATIVES**

<u>SAR in 000'</u>	<u>Negative fair value of derivative</u>	<u>Notional amount</u>			<u>Total</u>
		<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	
<b>30 June 2021 (Unaudited)</b>	<u><u>(30,696)</u></u>	<u><u>88,542</u></u>	<u><u>265,625</u></u>	<u><u>968,750</u></u>	<u><u>1,322,917</u></u>
31 December 2020 (Audited)	<u><u>(42,347)</u></u>	<u><u>113,542</u></u>	<u><u>265,625</u></u>	<u><u>1,145,833</u></u>	<u><u>1,525,000</u></u>

The Company entered into commission rate swaps with its parent, BSF. The negative fair value of commission rate swaps is SAR 30.70 million (31 December 2020: SAR 42.35 million). The fair value of commission rate swaps is calculated using discounted cash flow model using a risk-free discount rate adjusted for appropriate risk margin for counterparty risk including entity's own credit risk.

**SAUDI FRANSI FOR FINANCE LEASING**  
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(SAR '000)

**8. RELATED PARTY TRANSACTIONS**

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

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

<u>Name</u>	<u>Relationship</u>
Banque Saudi Fransi (BSF)	Parent
Sofinco Saudi Fransi (SSF)	Affiliate
Allianz Saudi Fransi (ASF)	Affiliate

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

**a) Transactions with related parties**

<u>Nature of transactions</u>	<u>Related parties</u>	<u>For the three-months period ended (Unaudited)</u>		<u>For the six-months period ended (Unaudited)</u>	
		<u>30 June 2021</u>	<u>30 June 2020</u>	<u>30 June 2021</u>	<u>30 June 2020</u>
Lease rental collected	SSF	22	45	141	154
IT maintenance and network related expenses	BSF	225	568	450	868
Financial charges on long-term loan and commission rate swaps including bank charges	BSF	11,190	12,452	22,612	25,623
Salaries and employee related expenses	BSF	710	1,762	1,248	2,958
Finance Lease disbursed	BSF and certain member of the BOD	–	1,004	–	1,004
Insurance expense of leased assets	ASF	1,495	38,288	6,441	59,277
Draw down of long-term loan	BSF	250,000	17,062	415,000	290,062
Payments of long-term loan	BSF	88,541	146,875	202,083	251,250

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

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

	<u>30 June 2021</u> (Unaudited)	<u>31 December 2020</u> (Audited)
Banque Saudi Fransi	10,057	8,727
Allianz Saudi Fransi	23,510	22,224
	<u>33,567</u>	<u>30,951</u>

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
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For the three-month and six-month periods ended 30 June 2021  
(SAR '000)

**8. RELATED PARTY TRANSACTIONS (CONTINUED)**

<b>c) Other balances with a related party:</b>	<b>30 June</b>	31 December
	<b><u>2021</u></b>	<u>2020</u>
	<i>(Unaudited)</i>	<i>(Audited)</i>
<b><u>Nature of balances</u></b>	<b><u>Related party</u></b>	
Cash and Cash equivalents	Banque Saudi Fransi	7,554
Long-term loan	Banque Saudi Fransi	1,529,245
	<b><u>17,514</u></b>	<u>7,554</u>
	<b><u>1,741,532</u></b>	<u>1,529,245</u>

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

	<b>For the three-month</b>		<b>For the six-month period</b>	
	<b>period ended (Unaudited)</b>		<b>ended (Unaudited)</b>	
	<b>30 June</b>	30 June	<b>30 June</b>	30 June
	<b><u>2021</u></b>	<u>2020</u>	<b><u>2021</u></b>	<u>2020</u>
Salaries	392	340	755	681
End of service benefits	18	14	34	27
Other allowances	-	6	-	12
	<b><u>410</u></b>	<u>360</u>	<b><u>789</u></b>	<u>720</u>

- e) As at 30 June 2021, the Company had 2 lease contracts (31 December 2020: 7 lease contracts) with Banque Saudi Fransi with an aggregate outstanding principal amounting to SAR 0.063 million (31 December 2020: SAR 0.21 million).

**9. LONG TERM LOAN**

The Company has a shariah compliant loan facility "Al Tawarruq" with a limit of SAR 2,000 million from its parent Banque Saudi Fransi ("BSF").

The outstanding / utilized amounts from the above facility which are as follows:

	<b>30 June</b>	31 December
	<b><u>2021</u></b>	<u>2020</u>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Current portion	357,782	383,412
Non-current portion	1,383,750	1,145,833
	<b><u>1,741,532</u></b>	<u>1,529,245</u>

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

**10. ACCOUNTS PAYABLE**

	<b>30 June</b>	31 December
	<b><u>2021</u></b>	<u>2020</u>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Third party insurance collected	6,324	8,602
Dealers payable	55,091	51,611
Commission payable	4,906	4,351
Insurance payable	42,999	12,130
Customer verification expense payable	3,082	1,974
Government fee payable	1,269	1,926
Others	210	33
	<b><u>113,881</u></b>	<u>80,627</u>

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**11. ZAKAT AND TAX**

The movement in the provision for zakat and tax is as follows:

	<b>30 June 2021 (Unaudited)</b>	31 December 2020 (Audited)
Opening zakat and tax	23,573	8,494
Charge for the period / year:		
- Current	10,779	19,263
- Prior years	-	11,184
- Deferred tax	-	2,909
Charge for the period / year	10,779	33,356
Payment during the period / year	(17,555)	(18,277)
Closing zakat and tax	16,797	23,573

**Status of assessments**

The Company has submitted its zakat and income tax returns for the years up to 31 December 2020 with the Zakat, Tax and Customs Authority (“ZATCA”).

During the period ended 30 June 2021, there has been no significant development in the status of the Company’s zakat and income tax assessments from the status disclosed in the annual audited financial statements of the Company for the year ended 31 December 2020.

**12. FEE INCOME AND EXPENSES**

	<b>For the three-month period ended (Unaudited)</b>		<b>For the six-month period ended (Unaudited)</b>	
	<b><u>30 June 2021</u></b>	<b><u>30 June 2020</u></b>	<b><u>30 June 2021</u></b>	<b><u>30 June 2020</u></b>
<b><i>Fee income</i></b>				
Insurance income	40,604	44,866	86,917	91,993
Processing fee	4,455	2,154	8,119	4,623
Other operating income	948	720	1,795	1,423
	46,007	47,740	96,831	98,039
<b><i>Fee expenses</i></b>				
Insurance expenses	(26,360)	(26,584)	(54,966)	(62,101)
Commission	(4,160)	(2,358)	(7,239)	(4,636)
Registration fee	(1,217)	(691)	(2,391)	(1,427)
Verification expenses	(748)	(871)	(1,365)	(1,076)
	(32,485)	(30,504)	(65,961)	(69,240)

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**13. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

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

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

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

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

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

The following table shows the carrying amount and fair values of financial assets and financial liabilities where fair value is different from carrying value or where the financial assets and liabilities are recorded at fair value, including their levels in the fair value hierarchy.

<b>30 June 2021</b> <b>(Unaudited)</b>	<b>Fair Value</b>				
	<b>Carrying Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b><u>Financial assets:</u></b>					
Net investments in finance leases	2,754,038	--	--	3,092,366	3,092,366
<b><u>Financial liabilities:</u></b>					
Negative fair value of derivative	30,696	--	30,696	--	30,696
<b>Fair Value</b>					
<b>31 December 2020</b> <b>(Audited)</b>	<b>Carrying Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b><u>Financial assets:</u></b>				
Net investments in finance leases	2,507,492	--	--	2,843,952	2,843,952
<b><u>Financial liabilities:</u></b>					
Negative fair value of derivative	42,347	--	42,347	--	42,347

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

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

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

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

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**14. GEOGRAPHICAL CONCENTRATION**

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

**15. SEGMENT REPORTING**

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

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

	Amount in SAR '000		
	Retail	Corporate	Total
<b><u>30 June 2021 (Unaudited)</u></b>			
<b>Total assets</b>	<b>2,816,361</b>	<b>96,143</b>	<b>2,912,504</b>
<b>Total liabilities</b>	<b>2,049,232</b>	<b>5,724</b>	<b>2,054,956</b>
<b>Allowance for expected credit losses</b>	<b>68,596</b>	<b>2,545</b>	<b>71,141</b>
<b>Total revenue</b>	<b>165,132</b>	<b>4,509</b>	<b>169,641</b>
<b>Total operating expenses</b>	<b>100,623</b>	<b>861</b>	<b>101,484</b>
<b>Net income for the period before zakat and income tax</b>	<b>64,509</b>	<b>3,648</b>	<b>68,157</b>
	Amount in SAR '000		
	Retail	Corporate	Total
<b><u>31 December 2020 (Audited)</u></b>			
<b>Total assets</b>	<b>2,522,144</b>	<b>83,937</b>	<b>2,606,081</b>
<b>Total liabilities</b>	<b>1,813,808</b>	<b>3,755</b>	<b>1,817,563</b>
<b>Impairment allowance for credit losses</b>	<b>88,606</b>	<b>3,269</b>	<b>91,875</b>
<b><u>30 June 2020 (Unaudited)</u></b>			
<b>Total revenue</b>	<b>162,178</b>	<b>1,360</b>	<b>163,538</b>
<b>Total operating expenses</b>	<b>117,586</b>	<b>1,940</b>	<b>119,526</b>
<b>Net income / loss for the period before zakat and income tax</b>	<b>44,592</b>	<b>(580)</b>	<b>44,012</b>

**16. COMMITMENTS**

The Company has finance lease contracts approved but not utilised, indicative offers issued which are under consideration of the customers as of the reporting date which have the potential to convert into financing amounting to SAR 25 million (31 December 2020: SAR 19.418 million).

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

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**17. 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 experiencing multiples waves of infections, despite having previously controlled the outbreak through aggressive precautionary measures. The government of the Kingdom of Saudi Arabia (“the Government”) however has managed to successfully control the outbreak to date.

The Company continues to evaluate the current situation through close review of exposures at a granular level, in addition to other risk management practices to manage the impact COVID-19 outbreak has had on its normal operations and financial performance.

To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. The Company has therefore continued to maintain overlays of SAR 4.78 million as at 30 June 2021. These have been based on a sector-based analysis performed by the Company depending on the impacted portfolios.

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***

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to eligible (stage 1 and stage 2) Micro Small and Medium Enterprises (“MSME”) as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. Whilst the PSFSP encompasses several programs, the one most pertinent to the Company as at 30 June 2021 is the deferred payments program.

As part of the deferred payments program launched by SAMA in March 2020 and with further extensions to the program subsequently announced, the Company deferred payments on lending facilities to MSME. The payment reliefs were considered as short-term liquidity support to address the borrower’s potential cash flow shortages. The Company implemented the payment reliefs by deferring the instalments falling due from 14 March 2020 to 30 June 2021 amounting to SAR 38.22 and extended the tenure of the applicable leases at no additional cost to the customer.

Further to the above, SAMA on 22 June 2021 announced the extension of the DPP for three additional months from 1 July 2021 to 30 September 2021, for MSMEs that are still affected by the COVID-19 precautionary measures. SAMA clarified that for this extension MSMEs will be subject to the assessment by the Company to the extent to which these MSMEs are still affected by the COVID-19 precautionary measures, in order to be qualified for the extension in accordance with the DPP guidelines. The Company has performed an assessment to determine the pool of customers eligible for deferral. The impact of this deferral is not material to the interim condensed financial statements.

The accounting impact of above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in total modification losses amounting to SAR 7.1 million out of which SAR 1.6 million was recorded in six-month period ended 30 June 2021 (30 June 2020: SAR 3.1 million).



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**17. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS (CONTINUED)**

*SAMA support programs and initiatives (Continued)*

During the six-months period ended 30 June 2021, SAR 1.5 million (30 June 2020: SAR 0.322 million) has been recognized in the statement of income relating to unwinding of modification losses.

In order to compensate the related cost that the Company is expected to incur under the SAMA and other public authorities program, during the year 2020 and the six-month period ended 30 June 2021, the Company received profit free deposit from SAMA amounting to SAR 18.21 million with varying maturities, which qualified as government grant.

Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income. By the end of the year 2020, total income of SAR 0.213 million had been recognised in the statement of income with the remaining amount deferred. During the six months period ended 30 June 2021, a total of SAR 0.16 million (30 June 2020: nil) has been recognised in the statement of income.

**18. IBOR TRANSITION (INTEREST RATE BENCHMARK REFORMS)**

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board (“IASB”) is engaged in a two-phase process of amending its guidance to assist in a smooth transition away from IBOR.

• **Phase 1**

The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments were effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform. The Company has adopted these amendments along with the hedging relief for pre-replacement hedges.

• **Phase 2**

The second phase relates to the replacement of benchmark rates with alternative risk-free rates (RFR). Currently, there is uncertainty as to the timing and the methods of transition for phase 2.

As a result of these uncertainties, IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR.

On 5 March 2021, the FCA, announced that all LIBOR settings for all currencies will either cease or no longer be representative immediately after the following dates:

- 31 December 2021, for Sterling, Euro, Swiss Franc and Japanese Yen LIBOR settings in all tenors, and US Dollar LIBOR 1-week and 2-month settings; and
- 30 June 2023, for US Dollar Overnight, 1-month, 3-month, 6-month and 12-month settings.

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**18. IBOR TRANSITION (INTEREST RATE BENCHMARK REFORMS) (CONTINUED)**

These reforms are expected to cause some interest rate benchmarks to either perform differently to the way that they do currently or to disappear. As the Company believes there continues to be uncertainty as to the timing and the methods for transition, under the Phase 1 amendments, IBOR continues to be used as a reference rate as at 30 June 2021 in the valuation of instruments with maturities that exceed the expected end date for IBORs in various jurisdictions and applying to various currencies.

The Company's derivative positions are managed by the Parent, which is running a project on the Group's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

**19. SUBSEQUENT EVENT**

There have been no events subsequent to the reporting date that would require adjustment nor disclosure to the interim condensed financial statements as at and for the six-months period ended 30 June 2021.

**20. BOARD OF DIRECTORS' APPROVAL**

The financial statements have been approved by the Board of Directors on 25 Dhul Hijjah 1442H (corresponding to 4 August 2021).