

ABDUL LATIF JAMEEL UNITED FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

CONDENSED INTERIM FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REVIEW REPORT FOR THE THREE
MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2021

**ABDUL LATIF JAMEEL UNITED FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

**CONDENSED INTERIM FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REVIEW REPORT
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2021**

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INDEPENDENT AUDITOR'S REVIEW REPORT ON CONDENSED INTERIM FINANCIAL STATEMENTS

To the shareholders
Abdul Latif Jameel United Finance Company
(A Saudi Closed Joint Stock Company)
Jeddah, Saudi Arabia

Introduction:

We have reviewed the accompanying condensed interim statement of financial position of Abdul Latif Jameel United Finance Company (a Saudi Closed Joint Stock Company) ("the Company") as of June 30, 2021 and the related condensed interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three month and six month periods then ended, and a summary of significant accounting policies and explanatory notes. Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of Review:

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements 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 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 condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

Emphasis of Matter

We draw attention to note 11(a) of the financial statements, which describes details about excess payments to the Banks against purchase and agency agreements. Our review conclusion is not modified in this respect.

Deloitte and Touche & Co.
Chartered Accountants



Waleed Bin Moha'd Sobahi
Certified Public Accountant
License No. 378

25 Dhul Hajj 1442H
August 4, 2021



ABDUL LATIF JAMEEL UNITED FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2021

(Expressed in thousands of Saudi Riyals unless otherwise stated)

	Note	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
ASSETS			
Non-current assets			
Property and equipment		66,004	70,532
Intangible assets		3,947	4,309
Investment classified as fair value through other comprehensive income		893	893
Net investment in finance lease	5	841,656	650,085
Notes receivable carried at amortized cost	6	5,342	5,448
Notes receivable carried at fair value through other comprehensive income	6	114,464	129,769
Other non-current assets	7	155,879	168,652
Total non-current assets		1,188,185	1,029,688
Current assets			
Net investment in finance lease	5	233,226	200,411
Notes receivable carried at amortized cost	6	11,843	13,273
Notes receivables carried at fair value through other comprehensive income	6	10,058	6,515
Inventories		9,416	14,089
Prepayments and other receivables		131,811	56,559
Deferred consideration receivable	16	115,278	119,391
Due from related parties	8	6,858	3,159
Cash and bank balances	9	3,144,129	3,261,705
Total current assets		3,662,619	3,675,102
TOTAL ASSETS		4,850,804	4,704,790
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	1	1,000,000	1,000,000
Statutory reserve		300,000	300,000
Retained earnings		1,526,293	1,418,098
Fair value reserve, net		26,443	27,002
Actuarial gains, net		32,868	32,868
Total shareholders' equity		2,885,604	2,777,968
Non-current liabilities			
Employee benefits liabilities		114,920	113,131
Lease liabilities		5,096	9,073
Payable to SAMA	20	258,573	305,752
Other non-current liabilities	10	161,468	174,912
Total non-current liabilities		540,057	602,868
Current liabilities			
Accounts payable, accrued and other liabilities	11	796,221	986,117
Payable to SAMA	20	556,213	260,452
Due to related parties	8	72,709	77,385
Total current liabilities		1,425,143	1,323,954
TOTAL LIABILITIES		1,965,200	1,926,822
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,850,804	4,704,790

The accompanying notes from 1 to 24 form an integral part of these condensed interim financial statements

ABDUL LATIF JAMEEL UNITED FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

**CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2021**
(Expressed in thousands of Saudi Riyals unless otherwise stated)

	Note	Three month period ended June 30 (Unaudited)		Six month period ended June 30 (Unaudited)	
		2021	2020 (Restated)	2021	2020 (Restated)
Revenues	12	86,179	122,282	163,497	244,139
Direct costs	13&22	(15,399)	(24,110)	(31,136)	(64,748)
GROSS MARGIN		70,780	98,172	132,361	179,391
Net gain on derecognition of receivables	16	63,461	94,007	113,545	196,265
Net change in present value of assets and liabilities relating to derecognized receivables		(2,027)	(1,636)	869	(1,889)
TOTAL OPERATING INCOME		132,214	190,543	246,775	373,767
Selling and marketing expenses	22	(42,195)	(41,655)	(90,396)	(103,594)
General and administrative expenses	22	(39,708)	(49,499)	(80,234)	(97,857)
Net reversal of impairment for lease and notes receivables	5 & 6	7,492	24,956	30,305	23,648
Total operating expenses		(74,411)	(66,198)	(140,325)	(177,803)
INCOME FROM OPERATIONS, net		57,803	124,345	106,450	195,964
Finance charges		(7,553)	(5,711)	(14,014)	(8,284)
Finance income	9 (a)	4,017	13,734	7,925	31,907
Other income		11,495	4,281	26,834	11,568
Income before zakat		65,762	136,649	127,195	231,155
Zakat	14	(10,600)	(15,000)	(19,000)	(31,000)
NET INCOME FOR THE PERIOD		55,162	121,649	108,195	200,155
Other comprehensive income					
<i>Items that may be reclassified to income:</i>					
Movement in fair value reserve	6.1	(1,116)	(177)	(559)	489
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		54,046	121,472	107,636	200,644
Basic and diluted earnings per share (expressed in Saudi Riyal per share)	15&22	0.55	0.72	1.08	1.18

The accompanying notes from 1 to 24 form an integral part of these condensed interim financial statements

ABDUL LATIF JAMEEL UNITED FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
SIX MONTH PERIOD ENDED JUNE 30, 2021

(Expressed in thousands of Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Fair value reserve	Actuarial gains, net	Total
January 1, 2020 (audited) (as restated)	22	1,700,000	291,375	1,430,836	44,850	41,625	3,508,686
Net income for the period (as restated)	22	-	-	200,155	-	-	200,155
Movement in fair value reserve relating to notes receivable carried at fair value through other comprehensive income	6.1	-	-	-	489	-	489
<i>Total comprehensive income for the period</i>		-	-	200,155	489	-	200,644
Dividend	18	-	-	(284,300)	-	-	(284,300)
June 30, 2020 (unaudited) (as restated)		1,700,000	291,375	1,346,691	45,339	41,625	3,425,030
January 1, 2021 (audited)		1,000,000	300,000	1,418,098	27,002	32,868	2,777,968
Net income for the period		-	-	108,195	-	-	108,195
Movement in fair value reserve relating to notes receivable carried at fair value through other comprehensive income	6.1	-	-	-	(559)	-	(559)
<i>Total comprehensive income for the period</i>		-	-	108,195	(559)	-	107,636
June 30, 2021 (unaudited)		1,000,000	300,000	1,526,293	26,443	32,868	2,885,604

The accompanying notes from 1 to 24 form an integral part of these condensed interim financial statements

ABDUL LATIF JAMEEL UNITED FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

CONDENSED INTERIM STATEMENT OF CASH FLOWS
SIX MONTH PERIOD ENDED JUNE 30, 2021

(Expressed in thousands of Saudi Riyals unless otherwise stated)

	For the six month period ended	
	June 30 (Unaudited)	
	2021	2020 (restated)
OPERATING ACTIVITIES		
Income before zakat	127,195	231,155
<i>Adjustments for:</i>		
Depreciation and amortization	9,163	13,800
Reversal against lease and notes receivables	(30,305)	(23,648)
Loss on disposal of property and equipment	241	-
Finance charges	14,014	8,284
Finance income	(7,925)	(31,907)
Grant income	(7,554)	(25,461)
Allowance for inventory	23	-
Net gain on derecognition of receivables	(113,545)	(196,265)
Net change in present value of assets and liabilities relating to derecognition of receivables	(869)	1,889
Provision for employee benefits liabilities	6,743	9,044
Property and equipment written off	-	364
Provision for onerous contracts	(787)	3,278
	(3,606)	(9,467)
<i>Changes in operating assets and liabilities:</i>		
Net investment in finance lease	(84,279)	742,352
Notes receivable	17,347	35,642
Prepayments, other receivables and other non-current assets	(58,366)	(96,078)
Inventories	4,651	2,079
Due from related parties	(3,699)	(548)
Accounts payable, accrued and other liabilities and other non-current liabilities	(164,547)	(238,437)
Due to related parties	(4,676)	(13,697)
<i>Cash (used in)/ from operations</i>	(297,175)	421,846
Employees benefits liabilities paid	(4,955)	(7,410)
Zakat paid	(55,461)	(69,848)
Finance charges paid	(3,577)	(7,726)
Net cash (used in) / from operating activities	(361,168)	336,862
INVESTING ACTIVITIES		
Purchase of property and equipment, intangibles	(9,705)	(7,456)
Proceeds from the disposal of property and equipment	1,748	-
Finance income received	7,925	31,907
Other deposits	(754,540)	1,427,105
Net cash (used in) / from investing activities	(754,572)	1,451,556
FINANCING ACTIVITIES		
Dividend paid	-	(284,300)
Finance cost paid	(250)	(558)
Repayment of lease liabilities	(2,075)	(2,799)
Proceeds from SAMA loan	355,399	364,261
Repayment of SAMA loan	(109,450)	-
Net cash from financing activities	243,624	76,604
Net (decrease) / increase in cash and cash equivalents	(872,116)	1,865,022
Cash and cash equivalents at the beginning of the period	958,564	497,060
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (note 9)	86,448	2,362,082
NON-CASH TRANSACTIONS:		
Movement in fair value reserve	559	489

The accompanying notes from 1 to 24 form an integral part of these condensed interim financial statements

ABDUL LATIF JAMEEL UNITED FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2021
(Expressed in Thousands of Saudi Riyals unless otherwise stated)

1. GENERAL INFORMATION

Abdul Latif Jameel United Finance Company (the "Company") is a Saudi Closed Joint Stock Company, initially registered in the Kingdom of Saudi Arabia as a Limited Liability Company under Commercial Registration number 4030206631, (Unified number 7001715155), issued on 28 Dhul-Hijjah 1431H (corresponding to December 4, 2010).

The Company's head office is in Jeddah. The activities of the Company include finance leasing, financing of productive assets and consumer financing in the Kingdom of Saudi Arabia.

On 16 Safar 1436H (corresponding to December 8, 2014), the Company received a license from Saudi Central Bank (previously Saudi Arabian Monetary Authority (SAMA)) to undertake activities of finance leasing, financing of productive assets and consumer financing in the Kingdom of Saudi Arabia under license number 28/AU/201412. During 2019, the Company renewed its license for another five years until 14 Safar 1446H (corresponding to August 18, 2024).

During the year ended December 31, 2020, the Company obtained No Objection Certificate from SAMA to engage in financing to Small and Medium enterprises under Finance Companies Control Law.

a) Share capital of the Company

The share capital of the Company was divided into 170,000,000 shares of SR 10 each and was owned as follows:

	<i>No. of shares of SR 10 each</i>	<i>Amount SR'000</i>
Abdul Latif Jameel Modern Trading Company Limited	150,450,000	1,504,500
Altawfiq United Company	17,000,000	170,000
Taif First United Company Limited	850,000	8,500
Bader First United Company Limited	850,000	8,500
Najid Al Raeda United Company Limited	850,000	8,500
	<u>170,000,000</u>	<u>1,700,000</u>

On 1 Muharram 1441H (corresponding to August 31, 2019), the Board of Directors of the Company resolved to decrease the share capital of the Company by SR 700 million (70,000,000 shares of SR 10 each) in proportion to the existing shareholding pattern. The Company received a No Objection Letter from SAMA dated October 13, 2019 (corresponding to 14 Safar 1441H) to decrease the Company's share capital. The legal formalities in respect of decrease in share capital were completed on August 9, 2020 and the amount of reduction in share capital was returned to shareholders on August 24, 2020.

After the decrease, the share capital of the Company, divided into 100,000,000 shares of SR 10 each is owned as follows:

	<i>No. of shares of SR 10 each</i>	<i>Amount SR'000</i>
Abdul Latif Jameel Modern Trading Company Limited	88,500,000	885,000
Altawfiq United Company	10,000,000	100,000
Taif First United Company Limited	500,000	5,000
Bader First United Company Limited	500,000	5,000
Najid Al Raeda United Company Limited	500,000	5,000
	<u>100,000,000</u>	<u>1,000,000</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2021
(Expressed in Thousands of Saudi Riyals unless otherwise stated)

The Ultimate Parent of the Company is United Instalment Sales Company Limited (“UIS” or “Ultimate Parent”). The Company, the Parent, the Ultimate Parent and other shareholders are wholly owned by Saudi shareholders.

b) Insurance arrangement

With effect from January 1, 2017, the Company entered into arrangements with Insurers for an initial period of six months, (renewed every six months) for three years. Upon each renewal, the premium rate, insurance charges and profit share was subject to be reviewed for any subsequent renewal period. As a result of this arrangement, the Company does not retain any insurance risk. During 2019, the said agreement has been renewed for another three years (renewable every six months) with effect from January 1, 2020.

During 2020, SAMA issued the Rules for Comprehensive Insurance of Motor vehicles financially leased to individuals to regulate the relationship between the financing entities and their individual customers with regard to the insurance coverage on the financially leased vehicles. As per the rules, at the end of the finance contract between the lessee and the lessor, the lessor shall pay back the lessee the extra amount of premiums paid by the lessee, or shall ask the lessee to pay the extra amount paid by the lessor to the insurer for the insurance policy.

c) Branches of the Company

As of June 30, 2021, the Company operates through 87 branches (December 31, 2020: 130 branches). The accompanying financial statements include the assets, liabilities and results of these branches as the beneficial owner of these branches is the Company.

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 New, Amended and Revised International Financial Reporting Standards (“IFRS”) Standards that are effective for the current period

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 2021, have been adopted in these financial statements.

In the current period, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after January 1, 2021.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

• **Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**

The amendments provide temporary relief that address the impact on financial reporting when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

For further details, please refer note 21 to these interim condensed interim financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2021
(Expressed in Thousands of Saudi Riyals unless otherwise stated)

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after January 1, 2021 and relevant to the Company's operations.

2.2 New and revised IFRS in issue but not yet effective and not early adopted

At the date of authorization of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)	April 1, 2021
Reference to the Conceptual Framework (Amendments to IFRS 3)	January 1, 2022
Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)	January 1, 2022
Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)	January 1, 2022
Annual Improvements to IFRS Standards 2018–2020	January 1, 2022
Amendments to IFRS 17	January 1, 2023
Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)	January 1, 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	January 1, 2023
Definition of Accounting Estimates (Amendments to IAS 8)	January 1, 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	January 1, 2023
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

The management is in the process of assessing the potential financial impact of application and do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

During 2020, SAMA issued rules governing credit risk exposure classification and provisioning. These rules set out the minimum requirements on credit risk exposure classification and provisioning. These rules shall be applicable to all finance companies licensed pursuant to Finance Companies Control Law effective from July 1, 2021. In a subsequent communication, SAMA deferred implementation of the rules to January 1, 2022, except for certain rules to be implemented on or before December 31, 2021. The management has engaged a consultant to update policies and procedures to be in line with the rules.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The condensed interim financial statements of the Company as of and for the six month period ended June 30, 2021 are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
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These condensed interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2020.

The results for the interim period of six month period ended June 30, 2021 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2021.

In preparing these condensed interim financial statements, the significant judgments made by the management are same as those that are applied to the financial statements for the year ended December 31, 2020.

3.2 Basis of preparation

These condensed interim financial statements have been prepared under the historical cost convention using accrual basis of accounting, except for employees benefit liability which is carried at present value of defined benefit obligation, using actuarial present value calculations based on projected unit credit method, the measurement at fair value of 'Investment classified at fair value through other comprehensive income' (FVTOCI) and a segment of notes receivable portfolio, which have been measured at their fair values and both of which have been classified as 'FVTOCI'.

3.3 Functional and presentational currency

These condensed interim financial statements have been presented in Saudi Riyals and have been rounded off to the nearest thousand Saudi Riyals, except as otherwise indicated.

The accounting policies used in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2020.

4. CRITICAL JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Company's condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The outbreak of novel coronavirus ("COVID-19") since early 2020, its spread across mainland China and then globally caused disruptions to businesses and economic activity globally including the Kingdom of Saudi Arabia and the declaration of this pandemic by the World Health Organization necessitated the Company's management to revisit its significant judgments in applying the Company's accounting policies and the methods of computation and the key sources of estimation applied to the annual financial statements for the year ended December 31, 2019 and 2020. The Company's management, during the year ended December 31, 2020, carried out an impact assessment on the overall Company's operations and business aspects including factors like supply chain, travel restrictions, oil prices, product demand, etc. and made certain changes to the expected credit loss model which has been updated during 2020. However, in view of the current uncertainty, given that the local as well as international health and government authorities continue to advise caution and future lockdowns have not been ruled out in entirety, it is challenging now to predict the full extent and duration of its business and economic impact. Therefore, any future change in the assumptions and 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.

The accounting estimates and assumptions used in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2020.

ABDUL LATIF JAMEEL UNITED FINANCE COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
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(Expressed in Thousands of Saudi Riyals unless otherwise stated)

5. NET INVESTMENT IN FINANCE LEASE

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Gross investment in finance lease	1,460,387	1,201,754
Less: unearned finance income	(298,618)	(225,400)
Present value of lease payments receivable	1,161,769	976,354
Less: impairment loss allowance (note a)	(86,887)	(125,858)
Net investment in finance lease	<u>1,074,882</u>	<u>850,496</u>

	June 30, 2021 (Unaudited)			
	Gross Investment	Unearned finance income	Allowance for impairment loss	Net Investment
Current portion	426,210	(106,097)	(86,887)	233,226
Non-current portion	1,034,177	(192,521)	-	841,656
Total	<u>1,460,387</u>	<u>(298,618)</u>	<u>(86,887)</u>	<u>1,074,882</u>

	December 31, 2020 (Audited)			
	Gross Investment	Unearned finance income	Allowance for impairment loss	Net Investment
Current portion	420,723	(94,454)	(125,858)	200,411
Non-current portion	781,031	(130,946)	-	650,085
Total	<u>1,201,754</u>	<u>(225,400)</u>	<u>(125,858)</u>	<u>850,496</u>

a) The movement in impairment loss allowance is as follows:

	Six month period ended June 30	
	2021 (Unaudited)	2020 (Unaudited)
January 1	125,858	203,757
Reversals during the period	(25,801)	(29,459)
Provision transferred on closure of 'purchase and agency agreements'	29,947	52,787
Amount written off during the period	(43,117)	-
June 30	<u>86,887</u>	<u>227,085</u>

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2021
(Expressed in Thousands of Saudi Riyals unless otherwise stated)

- b) The ageing of gross finance lease receivables which are past due and considered impaired by the management is as follows:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
1 - 3 months	8,698	11,399
4 - 6 months	7,602	15,044
7 - 12 months	9,453	11,578
More than 12 months	19,173	30,882
	44,926	68,903

The not yet due portion of above overdue finance lease receivables as of June 30, 2021 amounts to SR 167.06 million (December 31, 2020: SR 214.04 million).

6. NOTES RECEIVABLE

Notes receivable comprise of receivables arising from instalment sales of equipment and vehicles. For the purposes of these condensed interim financial statements, the notes receivable pertaining to instalment sale of vehicles have been carried at fair value through other comprehensive income (note 6.1) and notes receivable pertaining to instalment sales of equipment have been carried at amortized cost (note 6.2), as detailed below:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Notes receivable carried at fair value through other comprehensive income, net (note 6.1)	124,522	136,284
Notes receivable carried at amortized cost (note 6.2)	17,185	18,721

6.1 Notes receivable carried at fair value through other comprehensive income

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Notes receivable	124,522	136,284
Less: current portion	(10,058)	(6,515)
Non- current portion	114,464	129,769

As of June 30, 2021, the amortized cost of notes receivable measured at fair value through other comprehensive income was SR 98.1 million (December 31, 2020: SR 109.3 million), whereas the fair value of this portfolio was determined to be SR 124.5 million (December 31, 2020: SR 136.3 million) resulting in fair value reserve of SR 26.4 million (December 31, 2020: SR 27 million). The changes in the fair value during the six month period ended June 30, 2021 of negative SR 0.56 million (June 30, 2020: positive SR 0.49 million) are recognized in the 'condensed interim statement of other comprehensive income'.

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The movement in allowance for doubtful debts against notes receivable carried at fair value through other comprehensive income is as follows:

	Six month period ended June 30	
	2021 (Unaudited)	2020 (Unaudited)
January 1	24,121	22,967
(Reversal)/charge during the period	(4,067)	6,302
Amount written off during the period	(4,003)	-
June 30	<u>16,051</u>	<u>29,269</u>

6.2 Notes receivable carried at amortized cost

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Notes receivable, gross	21,462	23,354
Less: unearned finance income	(2,011)	(1,930)
	<u>19,451</u>	<u>21,424</u>
Less: impairment loss allowance (6.2a)	(2,266)	(2,703)
Notes receivable, net	<u>17,185</u>	<u>18,721</u>

	June 30, 2021 (Unaudited)			
	Gross investment	Unearned finance income	Allowance for impairment loss	Net Investment
Current portion	15,616	(1,507)	(2,266)	11,843
Non-current portion	5,846	(504)	-	5,342
Total	<u>21,462</u>	<u>(2,011)</u>	<u>(2,266)</u>	<u>17,185</u>

	December 31, 2020 (Audited)			
	Gross Investment	Unearned finance income	Allowance for impairment loss	Net Investment
Current portion	17,455	(1,479)	(2,703)	13,273
Non-current portion	5,899	(451)	-	5,448
Total	<u>23,354</u>	<u>(1,930)</u>	<u>(2,703)</u>	<u>18,721</u>

a) The movement in impairment loss allowance is as follows:

	Six month period ended June 30	
	2021 (Unaudited)	2020 (Unaudited)
January 1	2,703	3,317
Reversal during the period	(437)	(491)
June 30	<u>2,266</u>	<u>2,826</u>

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- b) The ageing of notes receivables which are past due and considered impaired by the management is as follows:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
1 - 3 months	525	871
4 - 6 months	399	881
7 - 12 months	1,338	3,180
More than 12 months	12,645	14,520
	14,907	19,452

The not yet due portion of above overdue notes receivables as of June 30, 2021 amounts to SR 22.13 million (December 31, 2020: SR 31.3 million).

7. OTHER NON-CURRENT ASSETS

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Employees' receivables - non-current portion	7,942	8,217
Net servicing asset (note 16)	4,464	5,638
Deferred consideration receivable – non-current Portion (note 16)*	143,473	154,797
	155,879	168,652

* Current portion of deferred consideration receivables amounts to SR 115,278 thousands as of June 30, 2021 (December 31, 2020: SR 119,391 thousands).

8. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

- i) Following are the details of related party transactions during the period:

Related party	Nature of transaction	For the three month period ended June 30		For the six month period ended June 30	
		2021 (Unaudited)	2020 (Unaudited)	2021 (Unaudited)	2020 (Unaudited)
Ultimate Parent	Collections from Company's customers	7	2	21	6
Other related parties	Purchases, net	328,232	190,499	673,463	542,996
	Advertisement expenses	714	221	714	649
	Expenses charged	3,622	2,211	7,500	6,872
	Supports received	10,122	4,616	16,643	10,287
	Charges for customer evaluations prior to lease	-	1,282	-	3,122
	Amounts collected on behalf of an affiliate	1,488	3,184	3,127	5,874

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ii) Due from related parties comprised of the following:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Abdul Latif Jameel Import and Distribution Company Limited	4,128	1,692
United Instalment Sales Company Limited ("Ultimate Parent")	1,079	400
Bab Rizq Jameel Micro Finance Company	750	467
Abdul Latif Jameel Bodywork and Paint Company Limited	377	-
Abdul Latif Jameel Insurance Brokerage Company	228	-
Abdul Latif Jameel Modern Trading Company Limited	213	100
Abdul Latif Jameel Company for Information and Services Limited	81	-
Abdul Latif Jameel Technology Company Limited	2	-
Mutalba Debt Collection Company	-	422
Abdul Latif Jameel United Real Estate Finance Company	-	78
	6,858	3,159

iii) Due to related parties comprised of the following:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Abdul Latif Jameel Retail Company Limited	54,465	67,345
Abdul Latif Jameel for Automotive Wholesale Company Limited	11,636	-
Salim Saleh Saeed Babqui Trading Company Limited	4,180	5,925
Abdul Latif Jameel Lands Company Limited	924	486
Abdul Latif Jameel Technology Products Company Limited	827	698
Abdul Latif Jameel Company Limited	523	1,340
Abdul Latif Jameel for Advertising Services Company Limited	81	81
Mutalba Debt Collection Company	70	-
Abdul Latif Jameel Summit Company Limited	3	3
Abdul Latif Jameel Industrial Equipment Company Limited	-	540
Abdul Latif Jameel Bodywork and Paint Company Limited	-	60
Abdul Latif Jameel Company for Information and Services Limited	-	907
	72,709	77,385

iv) The total amount of compensation to key management personnel during the period is as follows:

	Six month period ended June 30	
	(Unaudited)	(Unaudited)
Directors' remuneration	1,930	2,896
Short-term employee benefits	6,000	6,000
Employee benefits liabilities	157	177
	8,087	9,073

The Company's Board of Directors includes the Board and other Board related committees (Credit and Risk Management Committee and Audit Committee). Compensation to Company's key management personnel includes salaries, non-cash benefits allowances and post-employment defined benefits plans.

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9. CASH AND BANK BALANCES

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Cash in hand	1,849	3,089
Bank balances	84,599	955,475
Cash and cash equivalents	86,448	958,564
Other deposits (having original maturity of more than three months) (note 'b')	3,057,681	2,303,141
Cash and bank balances	3,144,129	3,261,705

- a) During the period, the Company earned SR 7.6 million (June 30, 2020: SR 30.9 million) on the murabaha deposits at the rate of return ranging from 0.28% to 0.86% (June 30, 2020: 0.25% to 2.70%).
- b) As of June 30, 2021, this includes murabaha deposits of SR 121.9 million (December 31, 2020: SR 121.4 million), representing amounts set aside in respect of employees' benefits liabilities.
- c) Details of foreign currency time deposits included in cash and bank balances is follows:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Cash and cash equivalents	55	55
Other deposits	1,734,488	1,731,016
Cash and bank balances	1,734,543	1,731,071

10. OTHER NON-CURRENT LIABILITIES

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Present value of net servicing liability - non-current portion (note 16)	17,995	20,115
Provision against expected defaults and discounts in respect of sold finance lease and notes receivable - non-current portion (note 16)	143,473	154,797
	161,468	174,912

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11. ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Accounts payable – trade	48,302	59,461
Accrued expenses*	58,841	70,955
Zakat payable (note 14)	41,105	77,566
Payable under purchase and agency agreements (note 16)	476,519	622,074
Present value of net servicing liability - current portion (note 16)	4,310	6,289
Amount due to the insurer	36,527	25,493
Current portion of lease liabilities	4,718	6,262
Provision for onerous arrangement (note 13 and note 'a' below)	1,102	1,889
Advance collections and other payables	124,797	116,128
	796,221	986,117

* Accrued expenses include amount due to related parties amounting to SR 9.6 million (December 31, 2020: SR 11.85 million).

a) Included in payable under purchase and agency agreements is an amount of SR 96 million representing net excess payments to Banks against various agreements which arose due to deferral of payments to the MSME customers under the SAMA deferred payment program (refer note 20). Under the terms of these agreements, the Company has a recourse to any future excess payments, balance in reserve account and finally the banks. The Company's management will initiate discussions with the Banks in order to rectify the situation before the end of Q3, 2021.

b) The movement in the provision for onerous insurance arrangements is as follows:

	Six month period ended June 30	
	2021 (Unaudited)	2020 (Unaudited)
January 1	1,889	9,711
(Reversal)/charge for the period	(787)	3,277
June 30	1,102	12,988

12. REVENUES

	For the three month period ended June 30		For the six month period ended June 30	
	2021 (Unaudited)	2020 (Unaudited)	2021 (Unaudited)	2020 (Unaudited)
Income from finance leases	30,427	36,942	59,968	92,122
Income from instalment sales	8,823	19,249	20,117	52,952
Contract fee income	6,159	4,058	12,414	10,862
Income from purchase and agency agreements (note 16)	25,412	40,642	51,966	84,086
Others	15,358	21,931	19,032	4,117
	86,179	122,282	163,497	244,139

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13. DIRECT COSTS

	For the three month period ended June 30		For the six month period ended June 30	
	2021 (Unaudited)	2020 (Unaudited) (Restated)	2021 (Unaudited)	2020 (Unaudited) (Restated)
Direct cost on finance leases	10,021	12,305	20,124	24,391
Direct cost on instalment sales (Reversal)/charge for provision for onerous insurance arrangements (note 11)	5,633	11,537	11,799	37,080
	(255)	268	(787)	3,277
	15,399	24,110	31,136	64,748

14. ZAKAT

During the six month period ended June 30, 2021, an amount of SR 19 million has been recorded as zakat charge (June 30, 2020: SR 31 million).

Status of zakat assessments

For the year 2012, the ZATCA issued an assessment claiming additional zakat of SR 27.6 million against which the Company filed an objection, which was not accepted by the ZATCA, therefore, the Company requested that the objection be forwarded to the Preliminary Objection Committee. However, the Company has retracted the objection and settled the above amount. The zakat declaration for the year 2013 is currently under review by the ZATCA and the declarations for the years 2014 to 2018 have been finalized, while the declaration for 2019 and 2020 is also under review. Further, the Company has a zakat certificate valid up to April 30, 2022.

15. EARNINGS PER SHARE

Basic earnings per share amounts is calculated by dividing the net profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the six month period ended June 30, 2021 and 2020.

There has been no dilutive effect on the weighted average number of shares during the six month period ended June 30, 2021 and 2020.

The basic and diluted earnings per share are calculated as follows:

	For the three month period ended June 30		For the six month period ended June 30	
	2021 (Unaudited)	2020 (Unaudited) (Restated)	2021 (Unaudited)	2020 (Unaudited) (Restated)
Net profit for the period (<i>in SR '000</i>)	55,162	121,649	108,195	200,155
Weighted average number of ordinary shares (<i>in'000</i>) (note 1(a))	100,000	170,000	100,000	170,000
Basic and diluted earnings (expressed in SR per share)	0.55	0.72	1.08	1.18

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16. PURCHASE AND AGENCY AGREEMENTS

The Company has entered into purchase and agency agreements (the 'agreements') with certain local banks in respect of certain finance lease and notes receivables (collectively referred as 'receivables').

Under the terms of the purchase and agency agreements, the Company first sells the eligible receivables to the 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 six month period ended June 30, 2021, the Company sold SR 916.3 million (June 30, 2020: SR 1,309 million) of its net receivables and the total amount received from the bank in respect of such sale was SR 1,019.4 million (June 30, 2020: SR 1,475.9 million). Upon sale, the Company derecognizes the receivables from its books and recognizes the difference as either gain or loss on derecognition of receivables (note (c)).

The following are the significant terms of the agreement:

- a) The Company continues to manage the sold receivables on behalf of the banks for a fee (agency fee). The total settlement of net receivables to be made to the banks (as per the agreed cash flows), as an agent under purchase and agency arrangements amount to SR 5,236 million as of June 30, 2021 (December 31, 2020: SR 5,551 million).

The maturity analysis of derecognized receivables is as follows:

<i>Under purchase and agency agreements</i>	Up to 1 year	2 - 3 years	After 3 years	Total
June 30, 2021 (Unaudited)	2,189,727	2,366,552	680,245	5,236,524
December 31, 2020 (Audited)	2,264,083	2,629,505	657,135	5,550,723

- b) Each agreement is 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 banks a monthly amount based on the cash flow statement. Any excess collections over and above the stipulated amounts and after retaining the amount for the next month's repayment, are transferred monthly by the Company to the banks. The amount of the next month's repayment is recognized as a liability and included in payable under purchase and agency agreements (note 11).

- c) A reserve is to be maintained out of the monthly receipts, which is to be distributed at the end of the term of the agreements 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 banks.

During the six month period ended June 30, 2021, the Company made gain amounting to SR 105.1 million (June 30, 2020: SR 183.6 million) on derecognition of receivables sold to the banks under the agreements, which is calculated as follows:

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	For the three month period ended June 30,		For the six month period ended June 30,	
	2021 (Unaudited)	2020 (Unaudited)	2021 (Unaudited)	2020 (Unaudited)
Gross amount of receivables	683,845	798,818	1,184,385	1,723,287
Less: deferred finance income	(154,474)	(194,354)	(268,037)	(414,057)
Less: present value of deferred consideration receivable (note (i))	-	-	-	-
Less: present value of net servicing liability (note (ii))	(1,278)	(7,921)	(2,055)	(16,979)
Less: amounts received from the banks	(587,100)	(684,200)	(1,019,400)	(1,475,900)
Net gain on derecognition of receivables	59,007	87,657	105,107	183,649

During the six month period ended June 30, 2021, certain purchase and agency agreements, previously entered into by the Company, matured and the Company recorded a net gain amounting to SR 8.4 million (June 30, 2020: SR 12.6 million) after deducting the actual customer defaults and discounts on premature terminations. The Company is in process of obtaining final settlement and discharge letters from the banks with respect to these agreements.

The total gain on derecognized receivables for the period is as follows:

	For the three month period ended June 30,		For the six month period ended June 30,	
	2021 (Unaudited)	2020 (Unaudited)	2021 (Unaudited)	2020 (Unaudited)
Gain on derecognition of receivables	59,007	87,657	105,107	183,649
Gain on maturity of derecognized pools	4,454	6,350	8,438	12,616
	63,461	94,007	113,545	196,265

- i. The deferred consideration receivable represents the continuing involvement in the transferred asset. Provision against expected defaults in respect of sold finance lease and notes receivable represents a guarantee provided by the Company under purchase and agency agreements to pay for default losses on a transferred asset. These have been disclosed as deferred consideration receivable (note 7) and provision against expected defaults and discounts in respect of sold finance lease and notes receivable (notes 10 and 11).
- ii. 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 condensed interim statement of financial position. This has been presented as follows:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Net servicing assets	4,464	5,638
Present value of net servicing liability	22,305	26,404
Less: current portion (note 11)	(4,310)	(6,289)
Non-current portion (note 10)	17,995	20,115

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The present value of net deferred consideration receivable and the present value of net servicing asset and net servicing liability is calculated by using the appropriate discount rate.

17. FINANCIAL RISK MANAGEMENT

Credit Risk

Credit quality analysis

i) Financial assets carried at fair value through other comprehensive income (FVTOCI)

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income as of June 30, 2021 and December 31, 2020. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

a) Net carrying amounts

	June 30, 2021 (Unaudited)			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Notes receivable carried at fair value through other comprehensive income	96,175	3,298	25,049	124,522

	December 31, 2020 (Audited)			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Notes receivable carried at fair value through other comprehensive income	107,205	4,279	24,802	136,284

b) Allowance for ECL

	June 30, 2021 (Unaudited)			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Notes receivable carried at fair value through other comprehensive income	2,769	401	12,881	16,051

	December 31, 2020 (Audited)			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Notes receivable carried at fair value through other comprehensive income	5,060	1,831	17,230	24,121

ii) Financial assets carried at amortized cost

The following tables set out information about the credit quality of financial assets measured at amortised cost as at June 30, 2021 and December 31, 2020. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

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a) Gross carrying amounts

	June 30, 2021 (Unaudited)			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Net investment in finance lease	1,401,329	10,440	48,618	1,460,387
Notes receivable carried at amortized cost	18,897	372	2,193	21,462
Carrying amount	1,420,226	10,812	50,811	1,481,849

	December 31, 2020 (Audited)			Total
	12 month ECL	Lifetime ECL not Credit impaired	Lifetime ECL credit impaired	
Net investment in finance lease	1,111,644	14,572	75,538	1,201,754
Notes receivable carried at amortized cost	20,002	605	2,747	23,354
Carrying amount	1,131,646	15,177	78,285	1,225,108

b) Allowance for ECL

	June 30, 2021 (Unaudited)			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Net investment in finance lease	38,469	4,398	44,020	86,887
Notes receivable carried at amortized cost	467	42	1,757	2,266
	38,936	4,440	45,777	89,153

	December 31, 2020 (Audited)			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Net investment in finance lease	50,913	10,756	64,189	125,858
Notes receivable carried at amortized cost	756	92	1,855	2,703
	51,669	10,848	66,044	128,561

The allowance for ECL for net investment in finance lease also includes the ECL on insurance, which the Company arranges on behalf of the customers.

Amounts arising from ECL - Significant increase in credit risk (SICR)

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.

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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 by comparing:

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

The Company groups its receivables into Stage 1, Stage 2, Stage 3 as described below:

Stage 1: When loans are first recognized, the Company recognizes an allowance based on 12 months ECLs. Stage 1 receivables also include receivables where the credit risk has improved, and the balance has been reclassified from Stage 2.

Stage 2: When a receivable has shown a significant increase in credit risk since origination, the Company records an allowance for the Lifetime ECL. Stage 2 receivables also include receivables, where the credit risk has improved, and the receivable has been reclassified from Stage 3.

Stage 3: Receivables considered credit impaired. The Company records an allowance for the Lifetime ECL.

Credit risk grades

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

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

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

a) Generating the term structure of PD

Credit risk grades 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. For some portfolios, information obtained from external credit reference agencies is also used.

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 macroeconomic factors as well as in depth analysis of the input of certain other factors (e.g. forbearance experience) on the risk of default include oil prices, inflation, manufacturing purchasing manager's index, money supply, GDP 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

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possible forecast scenarios (see incorporation of forward-looking information). The Company then uses these forecasts to adjust its estimates of PDs.

b) Determining whether 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 30 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 30 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).

In addition to the above SICR criteria, the Company has created a detailed risk profiling, by incorporating new components for the determination of SICR in order to address COVID-19 effects; such as industry risk, pool PDs and prior delinquency behavior.

Consideration due to the Covid-19:

In response to the impacts of COVID-19, various support programmes have been offered to the customers by the Company on account of SAMA initiatives, such as customers eligible under Deferred Payments Program (refer note 20 for further details). The exercise of the deferment option by a customer, in its own, is not consider by the Company as triggering SICR and as a consequence impact on ECL for those customers were determined based on their existing staging. However, as part of the Company's credit evaluation process especially given the current economic situation due to after effects of lock down, the Company analyzed the financial position of the customers and ability to repay the amounts and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

No change has been made in the backstop criteria for all types of exposures.

c) Modified financial assets

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

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When the terms of finance lease and notes receivables 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 and notes receivables to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Company's forbearance policy, finance lease and notes receivable 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 interest payments and amending the terms of leasing and instalments covenants. Both consumer and corporate portfolios are subject to the forbearance policy.

Any repayment holidays should not automatically trigger forbearance and migration to Stage 2. For all the exposures available to use repayment holidays due to COVID-19 the following are applied:

- *Micro, Small and Medium Enterprises ("MSMEs") portfolio:*
Exposures with more than 30 days past due at least once in the last 6 months or exposures which are classified into PD Pool 3 and belong to high risk industries with respect to Covid-19 impact are considered as High risk exposures and thus, after SICR is identified, are allocated into Stage 2.
- *Other than MSME portfolio:*
Exposures with more than 30 days past due at least once in the last 6 months or exposures which are classified into PD Pools 1, 2 or 4 and belong to high risk industries with respect to Covid-19 impact are considered as High risk exposures and thus, after SICR is identified, are allocated into Stage 2.

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

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

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.

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There have been no changes to the types of forward looking variables (key economic drivers) used as model inputs in the current period.

f) Measurement of ECL

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

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

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.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating 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 structure, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

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 Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a finance lease and notes receivables arrangement.

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Company's allowance for expected credit losses. The changing COVID-19 circumstances and the Government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of finance lease and instalment sales in future periods, expected credit losses reported by the Company should be considered as a best estimate within a range of possible estimates.

Consideration due to COVID-19:

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

As of December 31, 2020, the Company has made following material changes in its ECL methodology:

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- The Through The Cycle (TTC) PD estimates were updated using new additional vintages / quarterly cohorts starting March 2019 through December 2019 with a one-year performance window for each of them. Hence, the TTC PD estimates are based on the period September 2012 through December 2020.
- The TTC LGD estimates were updated using new additional vintages / quarterly cohorts including defaults and recovery data. Hence, the TTC LGD estimates are based on the period September 2012 through December 2020.
- Updated macroeconomic forecasts were used to update PIT PD and LGD estimates used to generate ECL for December 2020 and June 2021.

g) Governance and controls

In addition to the existing risk management framework, the Company has established a Steering Committee for oversight of IFRS 9 impairment process that includes representation from Finance, Risk and Information Technology (IT), as well as the involvement of subject matter experts in the areas of methodology reviews, data sourcing, risk modelling, and formulating judgements with respect to the aspects of significant increase in credit risk determination, macroeconomic assumptions and forward looking factors. The Framework and related controls have been approved by the board of directors.

h) Capital management

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure. The Company manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. Share capital has been reduced by SR 700 million during 2020 (note 1).

The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Regulations for Companies and SAMA. SAMA requires finance Companies engaged in financing other than real estate, to maintain aggregate financing to capital ratio of three times.

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Aggregate financing to capital ratio (Total financing (net investment in finance lease and notes receivable) divided by total shareholders' equity)	0.42 times	0.36 times

18. DIVIDEND

On 27 Rajab 1441H (corresponding to March 22, 2020), the shareholders of the Company in their annual meeting approved to distribute dividend amounting to SR 284.3 million (SR 1.67 per share). The dividend was paid to the shareholders on 29 Shawwal 1441H (corresponding to June 21, 2020).

During the quarter ended June 30, 2021, the Board of Directors proposed the distribution of dividend and the Company has received no objection letter from SAMA to distribute dividend amounting to SR 514.9 million represented by an amount of SR 290.8 million in respect of the year ended December 31, 2019 and SR 224.1 million in respect of the year ended December 31, 2020, out of the net profits of the Company. The financial statements for the quarter ended June 30, 2021 do not include the effect of the dividends, as they will be accounted for, in the period in which these are approved by the shareholders in the upcoming general meeting.

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19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial assets consist of cash and bank balances, investments, net investment in finance lease, notes receivable, due from related parties, employees' receivables, amount due from insurer and other receivables. Its financial liabilities consist of due to related parties, accounts payable, payable under purchase and agency agreements, lease liabilities and amount due to Insurers.

The fair values of the financial instruments are not materially different from their carrying values except for the net investment in finance lease and a segment of notes receivable portfolio measured at amortized cost.

The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

All financial instruments for which fair value is recognized or disclosed are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- 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.

The following table provides the fair value measurement hierarchy of the Company's financial assets as of June 30, 2021:

June 30, 2021 (Unaudited)	Fair value measurement using			
	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Financial assets measured at fair value</i>				
Notes receivable classified as fair value through other comprehensive income	124,522	-	-	124,522
Investment classified as fair value through other comprehensive income	893	-	-	893
<hr/>				
December 31, 2020 (Audited)	Fair value measurement using			
Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<i>Financial assets measured at fair value</i>				
Notes receivable classified as fair value through other comprehensive income	136,284	-	-	136,284
Investment classified as fair value through other comprehensive income	893	-	-	893
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20. 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 multiple waves of infections despite having previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

During 2020, the management performed a detailed assessment to ascertain the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio.

The Company continues to evaluate the current situation and its impact on key credit, liquidity, operational and solvency ratios and performance indicators in addition to other risk management practices. The evaluation of current situation also takes into consideration the impact of the government and SAMA support relief programs.

During the period ended June 30, 2021, the Company has revised certain macroeconomic factors inputs used for the determination of ECL. The Company’s ECL model continues to be sensitive to macroeconomic variables and scenario weightings. 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. 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.

It continues to be challenging to reliably ascertain the specific effects the pandemic and the government and SAMA support measures, such as the repayment holidays and other mitigating packages, will have. The Company has therefore concluded that it is too early for any potential credit impairment to be reflected through the application of the staging criteria and has instead put more emphasis on the macroeconomic model underpinning the PD and LGD determinations. The Company will continue to individually assess significant counterparty exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

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 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. The PSFSP mainly encompasses the following programs:

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

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Deferred payments program

During the year, SAMA announced deferred payment programs on March 14, 2020 and provided further extensions as follows:

- Deferred payment program - period from March 14, 2020 to September 14, 2020
- 1st extension - deferral period extended from September 15, 2020 to December 14, 2020
- 2nd extension - deferral period extended from December 15, 2020 to March 31, 2021.
- 3rd extension - deferral period extended from April 1, 2021 to June 30, 2021.
- 4th extension - deferral period extended from July 1, 2021 to September 30, 2021.

As part of the deferred payments program and its subsequent extensions, the Company is required to defer payments for the relevant deferral period on lending facilities to eligible MSMEs. The Company effected the payment reliefs by deferring instalments falling due within the period from the start of the relevant deferral period till the end of the deferral period. The Company has effected the payment reliefs by extending the tenure of the applicable financings granted with no additional costs to be borne by the customer.

As a result of the above program and related extensions, the Company has deferred total payments of SR 976.9 million till June 30, 2021.

Further to the above, SAMA on June 22, 2021 announced the extension of the DPP for three additional months from July 1, 2021 to September 30, 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 guidelines issued by SAMA. Subsequent to the period end the Company has performed an assessment to determine the pool of customers eligible for deferment and accordingly has deferred the installment falling due from July 1, 2021 to September 30, 2021 amounting to SR 174.6 million and extended the tenure of the applicable loans at no additional costs to the customer. This will result in the Company recognizing an additional modification loss of SR 1.8 million.

The accounting impact of the above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement. This has resulted in the Company recognizing a total day 1 modification loss amounting to SAR 2.4 million for the six-month period ended June 30, 2021 (June 30, 2020: SAR 29.5 million).

The Company generally considered the deferral of payments in hardship arrangements as an indication of a SICR but the deferral of payments under the current COVID-19 support packages have not, in isolation, been treated as an indication of SICR.

SAMA deposit granted to the Company under the deferred payment program

In order to compensate the related cost that the Company is expected to incur under the SAMA programs, the Company in aggregate received SR 933.8 million of profit free deposit from SAMA till June 30, 2021 with varying maturities. Details of the amounts received from SAMA are as follows:

- an amount of SR 108.8 million, repayable to SAMA over the period of 3.5 years in equal monthly instalments, with a grace period of 6 months, received against net investment in finance lease/notes receivables;
- an amount of SR 71.5 million, repayable to SAMA over the period of 1.5 years with a grace period of 4 months, received against net investment in finance lease/notes receivables;
- an amount of SR 36.5 million, repayable to SAMA over the period of 1.75 years in equal monthly

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instalments, with a grace period of 3 months, received against net investment in finance lease/notes receivables;

- an amount of SR 230 million, repayable to SAMA over the period of 3.5 years in equal monthly instalments, with a grace period of 6 months, received against sold receivables under purchase and agency agreements (note 16). SAMA has provided clarification that the above mentioned amount is provided as support for the Company, therefore, the Company recognized an amount of SR 17.9 million as grant income to offset the modification losses on the amounts received against sold receivables; and
- an amount of SR 132 million, repayable to SAMA over the period of 1.5 years in equal monthly instalments, with a grace period of 4 months, received against sold receivables under purchase and agency agreements (note 16).
- an amount of SR 158 million, repayable to SAMA over the period of 1.5 years in equal monthly instalments, with a grace period of 4 months, received against sold receivables under purchase and agency agreements (note 16).
- an amount of SR 197 million, repayable to SAMA over the period of 1.5 years in equal monthly instalments, with a grace period of 4 months, received against sold receivables under purchase and agency agreements (note 16).

The benefit of the above subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in recognition of government grant income of SR 40.9 million to offset the modification losses for which the grant has been provided. Management had determined based on the communication from SAMA, that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. For the recognition of this benefit of subsidized funding rate, the management has exercised certain judgements in the recognition and measurement of this grant income. During the six months period ended June 30, 2021, SR 10.2 million (June 30, 2020: SR 3.03 million) has been charged to the statement of income relating to unwinding of profit free deposit from SAMA.

Funding for lending program

During 2020, the Company had received additional profit free deposit from SAMA amounting to SR 10 million with a tenure of 36 months under the funding for lending program with a grace period of 6 months for repayment. The benefit of the interest free deposit has been accounted for on a systematic basis, in accordance with government grant accounting requirements.

Loan guarantee program

In a separate communication from SAMA, the above funding for lending program was superseded with loan guarantee program, whereby the Company would be required to provide finance to specific segment of the customers in accordance with the terms and conditions of the program and SAMA regulations. During 2020, the Company received an additional amount of SR 20 million with a tenure of 36 months under the funding for lending program with a grace period of 6 months for repayment.

Repayments of SAMA Programs

The Company has repaid a total of SR 122.9 million to SAMA upon maturity since the start of the programs. An amount of SR 109.5 million was paid during the six month period ended June 30, 2021.

Based on clarification by SAMA, the Company has applied the above programs on MSME and individuals.

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As of June 30, 2021, the Company has not participated in the Point of sale ("POS") and e-commerce service fee support program.

During May 2020, SAMA issued a guidance document entitled "Guidance on Accounting and Regulatory Treatment of COVID-19 - Extraordinary Support Measures". The Company has considered the guidance issued in the preparation of these condensed interim financial statements.

21. IBOR TRANSITION (INTEREST RATE BENCHMARK REFORMS)

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The IASB followed a two-phased process for 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 and 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 adoption of these amendments along with the hedging relief for pre-replacement hedges did not result in any impact on the Company.

Phase (2) - The second phase relates to the replacement of benchmark rates with alternative risk-free rates. 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.

The LIBOR administrator, ICE Benchmark Administration, is consulting on ceasing publication of all sterling LIBOR settings at the end of 2021, leaving just one year for firms to remove their remaining reliance on these benchmarks.

On 5 March 2021, the Financial Conduct Authority (FCA), the UK regulator, announced that all LIBOR settings for all currencies will either cease or no longer be representative immediately after the following dates:

- December 31, 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
- June 30, 2023, for US Dollar Overnight, 1-month, 3-month, 6-month and 12-month settings.

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 June 30, 2021 in the valuation of instruments with maturities that exceed the expected end date for IBORs in various jurisdictions and applying to various currencies. Further, IBOR transition may impact the sale of receivables to Banks in the future periods since those are based on IBOR benchmark.

22. PRIOR PERIOD ADJUSTMENTS AND COMPARATIVE FIGURES

During the period, the management identified certain expenses which required adjustment in the financial statements for the year ended December 31, 2019 but were erroneously recorded in the six month period ended June 30, 2020. These expenses include traffic violation expense of SR 5,461 thousand and car repossession expense amounting to SR 2,411 thousand due to which the profit for the above period was understated by SR 7,872 thousand.

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In accordance with IAS 8 – ‘Accounting Policies, Changes in Accounting Estimates and Errors’, the correction of the above has resulted in a retrospective restatement of the comparative amounts as given below. Further, certain prior year figures have also been reclassified to conform with current year presentation, in accordance with IAS 1 – ‘Presentation of financial statements’, as shown below:

	Balances as previously reported	Reclassification	Adjustments	Balance as restated
Statement of Profit or Loss and Other Comprehensive Income				
<i>For the six month period ended June 30, 2020</i>				
Direct costs	(59,421)	(7,738)	2,411	(64,748)
Selling and marketing expenses	(116,046)	6,991	5,461	(103,594)
General and administrative expenses	(98,604)	747	-	(97,857)
Net income for the period	192,283	-	7,872	200,155
Statement of changes in equity:				
<i>As of December 31, 2019</i>				
<i>Shareholders' equity</i>				
Retained earnings	1,438,708	-	(7,872)	1,430,836

There was no impact in the statement of cash flows for the six month period ended June 30, 2020 except for the change in income before zakat from SR 223,283 thousands to SR 231,155 thousands.

The statement of financial position as of the beginning of period ended December 31, 2019 was not presented in these condensed interim financial statements as there were no impact on the opening balances of 2019. The EPS of the Company increased from 1.13 to 1.18 for the six month period ended June 30, 2020 as a result of this restatement.

The above reclassifications had no effect on the profit reported in the condensed interim statement of profit or loss and other comprehensive income for the six month period ended June 30, 2020. Therefore, the condensed interim statement of financial position as of the beginning of six month period ended June 30, 2020 was not presented in these condensed interim financial statements.

23. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the period end, the Company executed a purchase and agency agreement with a local commercial bank to sell SR 242.5 million of its finance lease receivables. Under the terms of the purchase and agency agreement, the Company sold the eligible receivables to the bank net of insurance premiums and undertook to manage them on behalf of the bank as an agent for a monthly fee as per the terms of the purchase and agency agreement.

24. BOARD OF DIRECTORS' APPROVAL

These financial statements were approved by the Board of Directors on August 4, 2021 (corresponding to 25 Dhul Hajj 1442H).