RAYA FINANCING COMPANY
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
31 DECEMBER 2023

RAYA FINANCING COMPANY
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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Kingdom of Saudi Arabia
Commercial Registration No 2051062328

Headquarters in Riyadh

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الطابق 16، برج البرغش
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ص.ب 4803
الخبر 34412 - 3146
المملكة العربية السعودية
سجل تجاري رقم 2051062328

المركز الرئيسي في الرياض

Independent Auditor's Report

To the Shareholders of Raya Financing Company (A Single Shareholder Closed Joint Stock Company)

Opinion

We have audited the financial statements of Raya Financing Company ("the Company"), which comprise the statement of financial position as at 31 December 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flow for the year then ended, and notes to the financial statements, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS Accounting Standard) issued by the International Accounting Standards Board as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (Including International Independence Standards), that is endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

Further, the financial statements of the Company as at and for the year ended 31 December 2022 were audited by another auditor who expressed an un-qualified opinion on those financial statements on 28 February 2023.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standard that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies, Company's By-Laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Report

To the Shareholders of Raya Financing Company (A Single Shareholder Closed Joint Stock Company) (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements (Continued)

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

Independent Auditor's Report

To the Shareholders of Raya Financing Company (A Single Shareholder Closed Joint Stock Company) (continued)

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

KPMG Professional Services

كي . بي . إم . جي للاستشارات المهنية
Lic No. 46
C.R. 2051062328
K : 1
KPMG
ترخيص رقم ٤٦
س.ت : ٢٠٥١٠٦٢٣٢٨
KPMG Professional Services

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Mohammad Najeeb Alkhlaiwi

License No: 481

Al Khobar, 19 Shaban 1445H
Corresponding to: 29 February 2024G

RAYA FINANCING COMPANY
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023
(Expressed in Saudi Riyals)

	Notes	31 December 2023	31 December 2022
ASSETS			
Cash and cash equivalents	5	**3,807,756**	16,404,400
Prepayments and other receivables	6	**17,686,147**	14,221,232
Net investment in finance leases	7	**771,555,739**	380,404,755
Net investment in Murabaha finance	8	**115,891,323**	95,271,587
Right of use assets	9	**6,685,562**	3,464,269
Property and equipment	10	**2,774,237**	836,005
Intangible assets	11	**1,305,253**	2,549,966
Financial assets at fair value through other comprehensive income	12	**892,850**	892,850
TOTAL ASSETS		**920,598,867**	514,045,064
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	13	**230,000,000**	230,000,000
Accumulated losses		**(18,301,467)**	(25,314,687)
TOTAL SHAREHOLDERS' EQUITY		**211,698,533**	204,685,313
LIABILITIES			
Accounts payable	14	**187,936,119**	94,202,226
Accrued expenses and other current liabilities	15	**46,255,477**	22,180,318
Provision for zakat	16	**1,795,500**	1,844,833
Borrowings	17	**462,427,043**	184,809,837
Lease liabilities	9	**7,010,597**	3,741,156
Employees' end of service benefits	18	**3,475,598**	2,581,381
TOTAL LIABILITIES		**708,900,334**	309,359,751
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**920,598,867**	514,045,064

These financial statements appearing on pages 1 to 32 were approved by the Board of Directors on 15 Shaban 1445H corresponding to 25 February 2024G and have been signed on their behalf by:

Abdullah Ali Almajdouie	Adel Saleh Alhowar	Mohammed Maghrabi
Chairman	Chief Executive Officer	Chief Financial Officer

The accompanying notes from 1 to 30 appearing on pages 5 to 32 form an integral part of these financial statements.

RAYA FINANCING COMPANY
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in Saudi Riyals)

	Note	**31 December 2023**	31 December 2022
INCOME			
Finance lease income	19	**101,862,207**	58,816,397
Commission income		**19,768,528**	5,630,056
Gain on interest free loans from SAMA		**1,744,039**	-
Total income		**123,374,774**	64,446,453
EXPENSES			
Provision for Expected Credit Losses (“ECL”) on financial assets	7 & 8	**(13,005,964)**	(20,241,722)
Insurance and other cost of financed vehicles		**(35,538,291)**	(16,122,716)
Salaries and employee related expenses		**(27,653,142)**	(19,567,363)
Depreciation and amortization		**(2,846,311)**	(2,151,395)
Finance charge	21	**(22,036,910)**	(6,606,600)
Other expenses	20	**(14,536,911)**	(10,340,367)
Profit / (loss) before zakat		**7,757,245**	(10,583,710)
Zakat expense	16	**(411,911)**	(607,706)
Profit / (loss) for the year		**7,345,334**	(11,191,416)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Re-measurement (loss) / gain on defined benefit plans	18	**(332,114)**	207,878
Other comprehensive (loss) / gain for the year		**(332,114)**	207,878
Total comprehensive income / (loss) for the year		**7,013,220**	(10,983,538)

The accompanying notes from 1 to 30 appearing on pages 5 to 32 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in Saudi Riyals)

	Share capital	Accumulated losses	Total
Balance at 1 January 2023	**230,000,000**	**(25,314,687)**	**204,685,313**
Profit for the year	**-**	**7,345,334**	**7,345,334**
Other comprehensive loss	**-**	**(332,114)**	**(332,114)**
Total comprehensive income for the year	**-**	**7,013,220**	**7,013,220**
Balance at 31 December 2023	**230,000,000**	**(18,301,467)**	**211,698,533**
Balance at 1 January 2022	230,000,000	(14,331,149)	215,668,851
Loss for the year	-	(11,191,416)	(11,191,416)
Other comprehensive income	-	207,878	207,878
Total comprehensive loss for the year	-	(10,983,538)	(10,983,538)
Balance at 31 December 2022	230,000,000	(25,314,687)	204,685,313

The accompanying notes from 1 to 30 appearing on pages 5 to 32 form an integral part of these financial statements.

RAYA FINANCING COMPANY
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in Saudi Riyals)

	Notes	31 December 2023	31 December 2022
Cash flows from operating activities			
Profit / (loss) before zakat		**7,757,245**	(10,583,710)
Adjustments for:			
- Provision for expected credit loss	7 & 8	**13,005,964**	20,241,722
- Depreciation		**1,601,598**	720,568
- Amortization		**1,244,713**	1,430,827
- Finance cost		**22,036,910**	6,606,600
- Employees' end of service benefits		**847,597**	720,498
Changes in working capital:			
- Net investment in finance lease		**(426,520,723)**	(90,579,709)
- Prepayments and other receivables		**(3,464,915)**	(2,742,036)
- Accounts payable		**93,615,873**	28,529,470
- Accrued expenses and other current liabilities		**22,220,116**	4,322,017
Cash used in operating activities		**(267,655,622)**	(41,333,753)
Zakat paid	16	**(461,244)**	(1,598,652)
EOSB paid		**(167,474)**	(447,677)
Net cash used in operating activities		**(268,284,340)**	(43,380,082)
Cash flows from investing activities			
Acquisition of property and equipment		**(2,325,374)**	(309,803)
Net cash used in investing activities		**(2,325,374)**	(309,803)
Cash flows from financing activities			
Proceeds from long-term borrowings	17	**425,478,612**	19,591,324
Repayment of long-term borrowings	17	**(148,305,973)**	(98,119,210)
Interest paid on long-term borrowings	17	**(17,599,995)**	(4,342,858)
Finance lease liabilities paid		**(1,559,574)**	(588,322)
Net cash from / (used in) financing activities		**258,013,070**	(83,459,066)
Net change in cash and cash equivalents		**(12,596,644)**	(127,148,951)
Cash and cash equivalents at beginning of the year		**16,404,400**	143,553,351
Cash and cash equivalent at end of the year	5	**3,807,756**	16,404,400

SUPPLEMENTARY INFORMATION			
Non-cash transactions:			
Right of use assets recorded against lease liabilities		**4,435,749**	1,337,108
Re-measurement (loss) / gain on defined benefit plans		**(332,114)**	207,878
Transfer of employee termination benefits		**118,020**	230,586
		4,221,655	1,775,572

The accompanying notes from 1 to 30 appearing on pages 5 to 32 form an integral part of these financial statements.

1. CORPORATE INFORMATION

Raya Financing Company (the "Company") is a Single Shareholder Saudi Closed Joint Stock Company, registered in the Kingdom of Saudi Arabia under the Commercial Registration ("CR") number 2050104609 issued in Dammam on 8 Rabi II 1436H (28 January 2015) and operating under the Saudi Central Bank (SAMA) approval number 351000153064 dated 25 Dhul Hijjah 1435H (19 October 2014). The Company has obtained the license from SAMA to conduct finance leasing activities on 14 Jumada II 1437H (23 March 2016). Further, the Company received no objection certificate from SAMA to conduct Murabaha finance business in the Kingdom of Saudi Arabia during 2019. The registered address of the Company is P.O. Box 336, Dammam 31411, Kingdom of Saudi Arabia.

The Company is owned by Al Majdouie Motors Company Limited (the "Parent Company"), a limited liability company registered in the Kingdom of Saudi Arabia. The Parent Company is effectively owned by Ali Ibrahim Saleh Al Majdouie Company (the 'Ultimate Parent Company'), which is ultimately controlled by Sheikh Ali Ibrahim Saleh Al Majdouie.

These financial statements include the operations of the Company and its following branches:

Location	Commercial registration number
Jeddah	4030296155
Riyadh	1010610746
Dammam	2050104609

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements are prepared by the Company in accordance with International Financial Reporting Standards (IFRS Accounting Standard) issued by the International Accounting Standards Board as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

2.2 Historical cost convention

These financial statements have been prepared on a historical cost basis, using going concern assumption, except for investment which is measured at fair value and employees' end of service benefits which is measured at projected unit credit method.

2.3 Basis of presentation

The Company's statement of financial position is not presented using a current / non-current classification. However, the following balances would generally be classified as current: cash and cash equivalents, prepayment and other receivables, accounts payables, accrued expenses and other liabilities and provision for Zakat. The following balances would generally be classified as non-current: property and equipment, intangible assets and employees' end of service benefits. The balances which are of mixed in nature, i.e. include both current and non-current portions, include net investment in finance leases, net investment in Murabaha finance, lease liabilities and borrowings.

2.4 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements are presented in Saudi Riyals (SR) which is the Company's functional and presentation currency. All financial information presented in Saudi Riyals has been rounded to the nearest Riyal, unless otherwise stated.

2. BASIS OF PRESENTATION (CONTINUED)

2.5 Current versus non-current classification

Until 31 December 2020, the Company presented current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position. Management has reassessed this presentation during 2021 and believes that because of lack of a clearly identifiable operating cycle, presentation of assets and liabilities in order of liquidity provides information that is more relevant than a current/ non-current presentation. Accordingly, assets and liabilities have been presented in order of their liquidity as of 31 December 2023 along with the corresponding figures for 2022. Refer to Note 24 for analysis of financial instruments by undiscounted contractual maturities.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

2.6 Standards, new pronouncements and interpretations

New and revised standards with no material effect on the financial statements

The following revised IFRSs have been adopted. The application of these revised IFRSs did not have any material impact on the amounts reported for current and prior periods.

- IFRS 17 Insurance Contracts (Amendments to IFRS 17);
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimate (Amendments to IAS 8);
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes; and
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17)
- International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12

2. BASIS OF PRESENTATION (CONTINUED)

2.6 Standards, new pronouncements and interpretations (Continued)

New and revised standards issued but not yet effective
The Company has not early adopted the following new and revised standards that have been issued but are not yet effective:

- Classification of liabilities as current or non-current (Amendments to IAS 1), effective for annual periods beginning on or after 1 January 2024;
- Lease liabilities in a Sale and Leaseback (Amendments to IFRS 16), effective for annual periods beginning on or after 1 January 2024;
- Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7, effective for annual periods beginning on or after 1 January 2024;
- Lack of exchangeability – Amendments to IAS 21, effective for annual periods beginning on or after 1 January 2025;
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28), effective date yet to be determined

The above-mentioned standards are not expected to have a significant impact on the Company's financial statements.

3. MATERIAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the financial statements. In addition, the Company has adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements. The amendments require the disclosure of "material", rather than "significant", accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements. Management reviewed the accounting policies and made updates to the information wherever required in line with the amendments, as a result certain policies were not made part of the current year financial statements ended 31 December 2023.

3.1 Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits and short-term highly liquid investments, with original maturities up to three months, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

3.2 Net investment in finance leases and Murabaha finance

Finance lease
Leases in which the Company transfers substantially all the risk and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. Finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments ("PVMLP) and subsequently measured at amortised cost using the effective commission rate. Gross investment in finance leases include the total of future lease payments on finance leases including residual amount receivable ("Lease rentals"). Security deposits with right to offset against lease rentals are deducted from gross investments in finance lease. The difference between lease rentals and the cost of the leased asset including transaction costs is recorded as unearned finance income. For presentation purposes, the unearned finance income and impairment provision for lease losses are deducted from the gross investment in finance leases.

Murabaha finance
Murabaha is an islamic form of financing wherein, the Company based on request from its customers, purchases specific commodities and sells them to the customers at a price equal to the Company's cost plus profit, payable on deferred basis in installments.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.3 Repossessed assets held for sale

The Company, in the ordinary course of its business, acquires certain vehicles against settlement of related net investment in finance leases. Such assets are considered as assets held for sale are initially recorded at the net realizable value of repossessed assets.

Subsequent to the initial recognition, these assets are carried at the lower of their carrying values or the related net realizable value. Changes in net realisable value and gains or losses on disposal are charged or credited to the statement of comprehensive income.

3.4 Financial instruments

3.4.1 Financial assets

(i) Classification

The Company's financial assets are classified and measured under the following categories:

- Fair value through other comprehensive income (FVTOCI); and
- Amortised cost.

These classifications are on the basis of business model of the Company for managing the financial assets, and contractual cash flow characteristics.

The Company measures financial asset at amortised cost when it is within the business model to hold assets in order to collect contractual cash flows, and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For assets measured at fair value through other comprehensive income, gains and losses will be recorded in other comprehensive income.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

<u>Subsequent measurement</u>

Subsequent measurement of financial assets is as follows:

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (Continuted)

3.4.1 Financial assets (Continuted)

Equity instruments
The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(iv) Impairment
The Company assesses on a forward looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For net investment in finance leases and Murabaha finance, the Company applies the three-stage model ('general model') for impairment based on changes in credit quality since initial recognition.

Stage 1 ("Performing") includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the ECL that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset, weighted by the probability that the loss will occur in the next 12 months.

Stage 2 ("Under-performing") includes financial instruments that have had a significant increase in credit risk since initial recognition, unless they have low credit risk at the reporting date, but that do not have objective evidence of impairment. A significant increase in credit risk is presumed if a receivable is more than 30 days past due. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the ECL that result from all possible default events over the maximum contractual period during which the Company is exposed to credit risk. ECL are the weighted average credit losses, with the respective risks of a default occurring as the weights.

Stage 3 ("Non-performing") includes financial assets that have objective evidence of impairment at the reporting date. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

The Company, when determining whether the credit risk on a financial instrument has increased significantly, considers reasonable and supportable information available (e.g. days past due, customer credit scoring etc.), in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument.

While cash and cash equivalents and other recievables are also subject to impairment requirements of IFRS 9, these are considered as low risk and the impairment loss is not expected to be material.

Financial assets are written-off only when:

(i) the receivable is at least one year past due, and
(ii) there is no reasonable expectation of recovery.

Where financial assets are written-off, the Company continues to engage enforcement activities to attempt to recover the receivable due. Where recoveries are made, after write-off, are recognized as other income in the statement of comprehensive income.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (Continuted)

3.4.2 Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortised cost using the effective interest rate method.

A financial liability is derecognised when the obligation is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in statement of comprehensive income.

3.4.3 Offsetting

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

3.5 Accounts payable

Liabilities are obligations to pay for goods and services received, whether or not billed to the Company. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.6 Borrowings

Borrowings are initially recognized at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition, borrowings are measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in statement of comprehensive income as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3.7 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Finance lease and Murabaha finance income is recognised using the effective yield method.

Commission income on lease of motor vehicles is recognised when the lease contracts are executed, as per the agreed terms with the respective supplier.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.8 Government grant

The Company recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Company will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of profit is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial fair value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. The government grant is recognised in the statement of comprehensive income on a systematic basis over the period in which the Company recognises as expenses the related costs for which the grant is intended to compensate.

3.9 Zakat and taxes

In accordance with the regulations of the Zakat, Tax and Customs Authority (“ZATCA”), the Company is subject to zakat. Zakat expense is charged to profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income Tax law.

3.10 Day one loss

Where the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from active markets, the Company immediately recognizes the difference between the transaction price and fair value (a ‘Day 1’ profit or loss) in the Statement of profit or loss.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Measurement of ECL allowance on investment in finance leases and Murabaha financing contracts is an estimate that has a risk of causing a material adjustment to the carrying amounts of assets within the next financial year. See Notes 7, 8 and 24.1.

(Expressed in Saudi Riyals)

5. CASH AND CASH EQUIVALENTS

	31 December 2023	31 December 2022
Cash in hand	**36,787**	28,789
Cash at bank	**3,770,969**	16,375,611
	3,807,756	16,404,400

6. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2023	31 December 2022
Prepaid expenses	**13,643,648**	8,498,077
Advances to suppliers	**659,026**	1,196,534
Insurance claims	**2,799,547**	1,971,487
Repossessed assets held for resale	**359,449**	390,636
Others	**224,477**	2,164,498
	17,686,147	14,221,232

7. NET INVESTMENT IN FINANCE LEASES

7.1 Reconciliation between gross and net investment in finance leases is as follows:

	31 December 2023	31 December 2022
Gross investment in finance lease	**1,119,826,549**	545,763,799
Less: Unearned lease finance income	**(313,049,907)**	(138,161,622)
Present Value (PV) of minimum lease payments receivable	**806,776,642**	407,602,177
Provision for impairment of finance lease receivables (Note 7.3)	**(35,220,903)**	(27,197,422)
Net investment in finance leases	**771,555,739**	380,404,755
Due after one year	**(615,520,355)**	(270,822,325)
Due within one year	**156,035,384**	109,582,430

7.2 The maturity of the gross investment in finance leases as at 31 December 2023 is as follows:

	Gross investment in finance leases	**Unearned finance lease income**	**PV of minimum lease payments**
Not later than one year	**269,597,208**	**100,162,798**	**169,434,410**
One to two years	**229,071,183**	**85,233,051**	**143,838,132**
Two to three years	**220,884,303**	**62,986,502**	**157,897,801**
Three to four years	**187,591,727**	**42,908,619**	**144,683,108**
Four to five years	**212,682,128**	**21,758,937**	**190,923,191**
	1,119,826,549	**313,049,907**	**806,776,642**

The maturity of the gross investment in finance leases as at 31 December 2022 is as follows:

	Gross investment in finance leases	Unearned finance lease income	PV of minimum lease payments
Not later than one year	173,289,967	48,568,820	124,721,147
One to two years	108,757,046	36,182,661	72,574,385
Two to three years	87,342,820	26,304,702	61,038,118
Three to four years	80,726,499	17,869,500	62,856,999
Four to five years	95,647,467	9,235,939	86,411,528
	545,763,799	138,161,622	407,602,177

(Expressed in Saudi Riyals)

7. NET INVESTMENT IN FINANCE LEASES (CONTINUED)

7.3 The movement in the impairment of finance lease receivables is as follows:

	31 December 2023	31 December 2022
Balance at the beginning of the year	**27,197,422**	13,109,112
Allowance for the year	**12,652,655**	14,088,310
Write-off during the year	**(4,629,174)**	-
Balance at the end of the year	**35,220,903**	27,197,422

7.4 Category wise movement in provision for impairment of lease receivables is as follows:

	For the year ended 31 December 2023			
2023	**Performing**	**Under-performing**	**Non-performing**	**Total**
Opening balance as at 1 January	**9,737,124**	**1,915,625**	**15,544,673**	**27,197,422**
Individual financial assets transferred to under-performing (lifetime expected credit losses)	**(1,903,185)**	**2,564,414**	**(531,293)**	**129,936**
Individual financial assets transferred to non -performing (credit-impaired financial assets)	**(1,734,863)**	**(417,681)**	**4,593,673**	**2,441,129**
Individual financial assets transferred to performing (12-month expected credit losses)	**153,933**	**(607,909)**	**(662,429)**	**(1,116,405)**
New financial assets originated	**16,707,570**	**-**	**-**	**16,707,570**
Collections / recoveries	**(3,401,926)**	**(566,206)**	**(4,557,911)**	**(8,526,043)**
Changes in assumptions	**43,363**	**2,884**	**2,970,221**	**3,016,468**
Write-off	**-**	**-**	**(4,629,174)**	**(4,629,174)**
Closing balance as at 31 December	**19,602,016**	**2,891,127**	**12,727,760**	**35,220,903**

	For the year ended 31 December 2022			
2022	Performing	Under-performing	Non-performing	Total
Opening balance as at 1 January	1,797,157	703,060	10,608,895	13,109,112
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(1,400,403)	1,859,163	(72,150)	386,610
Individual financial assets transferred to non performing (credit-impaired financial assets)	(1,078,981)	(218,692)	5,471,991	4,174,318
Individual financial assets transferred to performing (12-month expected credit losses	124,098	(297,004)	(1,109,234)	(1,282,140)
New financial assets originated	8,258,983	-	-	8,258,983
Collections / recoveries	(237,551)	(134,857)	(2,532,263)	(2,904,671)
Changes in assumptions	2,273,821	3,955	3,177,434	5,455,210
Closing balance as at 31 December	9,737,124	1,915,625	15,544,673	27,197,422

7.5 Category wise gross lease receivables are as follows:

	31 December 2023	31 December 2022
Performing	**1,039,265,106**	469,817,515
Under-performing	**42,914,943**	28,603,337
Non-performing	**37,646,500**	47,342,947
	1,119,826,549	545,763,799

(Expressed in Saudi Riyals)

7. NET INVESTMENT IN FINANCE LEASES (CONTINUED)

7.6 Category wise movement in gross lease receivables is as follows:

	For the year ended 31 December 2023			
2023	**Performing**	**Under-performing**	**Non-performing**	**Total**
Opening balance as at 1 January	**469,817,515**	**28,603,337**	**47,342,947**	**545,763,799**
Individual financial assets transferred to under-performing (lifetime expected credit losses)	**(39,296,161)**	**41,899,816**	**(2,603,655)**	**-**
Individual financial assets transferred to non -performing (credit-impaired financial assets)	**(26,367,037)**	**(5,546,452)**	**31,913,489**	**-**
Individual financial assets transferred to performing (12-month expected credit losses)	**11,474,455**	**(8,180,692)**	**(3,293,763)**	**-**
New financial assets originated	**750,014,253**	**-**	**-**	**750,014,253**
Write-off	**-**	**-**	**(5,837,656)**	**(5,837,656)**
Collections / recoveries	**(126,377,919)**	**(13,861,066)**	**(29,874,862)**	**(170,113,847)**
Closing balance as at 31 December	**1,039,265,106**	**42,914,943**	**37,646,500**	**1,119,826,549**

	For the year ended 31 December 2022			
2022	Performing	Under-performing	Non-performing	Total
Opening balance as at 1 January	327,411,981	14,800,164	39,270,022	381,482,167
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(31,190,130)	31,550,032	(359,902)	-
Individual financial assets transferred to non -performing (credit-impaired financial assets)	(33,107,425)	(4,940,623)	38,048,048	-
Individual financial assets transferred to performing (12-month expected credit losses)	10,748,427	(5,223,768)	(5,524,659)	-
New financial assets originated	307,530,678	-	-	307,530,678
Collections / recoveries	(111,576,016)	(7,582,468)	(24,090,562)	(143,249,046)
Closing balance as at 31 December	469,817,515	28,603,337	47,342,947	545,763,799

7.7 Category wise gross lease receivables net of impairment provision is as follows:

	31 December 2023	31 December 2022
Performing	**1,019,663,090**	460,080,391
Under-performing	**40,023,816**	26,687,712
Non-performing	**24,918,740**	31,798,274
	1,084,605,646	518,566,377

7.8 During 2020, the Company sold its finance lease receivables under a purchase and agency agreement, amounting to Saudi Riyals 77.3 million to a financial institution and derecognized the same from its books, and recorded a net gain of Saudi Riyals 16.6 million on the derecognition. The outstanding position of sold finance lease receivables has been disclosed in Note 25. In respect of these sold finance lease receivables, the Company acts in the capacity of a servicing agent for subsequent collection of lease instalments on behalf of financial institution. The Company has calculated and accounted for a net servicing liability under the agreement with the financial institution, which is disclosed in Note 26.

(Expressed in Saudi Riyals)

8. NET INVESTMENT IN MURABAHA FINANCE

8.1 Reconciliation between gross and net Murabaha finance is as follows:

	31 December 2023	31 December 2022
Gross investment in Murabaha finance	**143,449,814**	117,330,144
Less: unearned Murabaha finance income	**(17,615,251)**	(12,365,896)
Present Value (PV) of investment in Murabaha finance	**125,834,563**	104,964,248
Provision for impairment of Murabaha finance receivables (Note 8.3)	**(9,943,240)**	(9,692,661)
Net investment in Murabaha finance	**115,891,323**	95,271,587
Due after one year	**(52,569,410)**	(33,878,523)
Due within one year	**63,321,913**	61,393,064

8.2 The maturity of the gross investment in Murabaha finance as at 31 December 2023 is as follows:

	Gross investment in Murabaha finance	**Unearned Murabaha finance income**	**PV of investment in Murabaha finance**
Not later than one year	**81,721,818**	**11,507,608**	**70,214,210**
One to two years	**43,662,703**	**5,001,091**	**38,661,612**
Two to three years	**16,681,409**	**1,012,328**	**15,669,081**
Three to four years	**1,136,368**	**83,748**	**1,052,620**
Four to five years	**247,516**	**10,476**	**237,040**
	143,449,814	**17,615,251**	**125,834,563**

The maturity of the gross investment in Murabaha finance as at 31 December 2022 is as follows:

	Gross investment in Murabaha finance	Unearned Murabaha finance income	PV of investment in Murabaha finance
Not later than one year	77,002,982	8,850,492	68,152,490
One to two years	31,628,780	2,932,688	28,696,092
Two to three years	7,234,577	459,964	6,774,613
Three to four years	1,016,124	100,899	915,225
Four to five years	447,681	21,853	425,828
	117,330,144	12,365,896	104,964,248

8.3 The movement in the impairment of net investment in Murabaha finance is as follows:

	31 December 2023	31 December 2022
Balance at the beginning of the year	**9,692,661**	3,539,249
Allowance for the year	**353,309**	6,153,412
Write-off during the year	**(102,730)**	-
Balance at the end of the year	**9,943,240**	9,692,661

(Expressed in Saudi Riyals)

8. NET INVESTMENT IN MURABAHA FINANCE (CONTINUED)

8.4 Category wise movement in provision for impairment of Murabaha finance is as follows:

	For the year ended 31 December 2023			
2023	**Performing**	**Under-performing**	**Non-performing**	**Total**
Opening balance as at 1 January	**4,632,144**	**865,744**	**4,194,773**	**9,692,661**
Individual financial assets transferred to under-performing (lifetime expected credit losses)	**(672,101)**	**698,921**	**(154,807)**	**(127,987)**
Individual financial assets transferred to non -performing (credit-impaired financial assets)	**(866,468)**	**(97,384)**	**1,334,204**	**370,352**
Individual financial assets transferred to performing (12-month expected credit losses)	**101,886**	**(760,252)**	**(711,718)**	**(1,370,084)**
New financial assets originated	**4,223,434**	**-**	**-**	**4,223,434**
Collections / recoveries	**(2,439,765)**	**(3,820)**	**(302,190)**	**(2,745,775)**
Changes in assumptions	**-**	**-**	**3,369**	**3,369**
Write-off	**-**	**-**	**(102,730)**	**(102,730)**
Closing balance as at 31 December	**4,979,130**	**703,209**	**4,260,901**	**9,943,240**

	For the year ended 31 December 2022			
2022	Performing	Under-performing	Non-performing	Total
Opening balance as at 1 January	913,637	109,079	2,516,533	3,539,249
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(131,913)	845,348	-	713,435
Individual financial assets transferred to non -performing (credit-impaired financial assets)	(646,662)	(54,807)	1,670,525	969,056
Individual financial assets transferred to performing (12-month expected credit losses)	27	(1,376)	-	(1,349)
New financial assets originated	3,097,994	-	-	3,097,994
Collections / recoveries	(51,425)	(32,500)	(38,127)	(122,052)
Changes in assumptions	1,450,486	-	45,842	1,496,328
Closing balance as at 31 December	4,632,144	865,744	4,194,773	9,692,661

8.5 Category wise gross investment in Murabaha finance are as follows:

	31 December 2023	31 December 2022
Performing	**126,412,626**	100,271,291
Under-performing	**7,572,631**	7,839,005
Non-performing	**9,464,557**	9,219,848
	143,449,814	117,330,144

(Expressed in Saudi Riyals)

8. NET INVESTMENT IN MURABAHA FINANCE (CONTINUED)

8.6 Category wise movement in gross Murabaha finance is as follows:

	For the year ended 31 December 2023			
2023	**Performing**	**Under-performing**	**Non-performing**	**Total**
Opening balance as at 1 January	**100,271,291**	**7,839,005**	**9,219,848**	**117,330,144**
Individual financial assets transferred to under-performing (lifetime expected credit losses)	**(12,178,310)**	**12,522,325**	**(344,015)**	**-**
Individual financial assets transferred to non -performing (credit-impaired financial assets)	**(19,634,007)**	**(916,153)**	**20,550,160**	**-**
Individual financial assets transferred to performing (12-month expected credit losses)	**8,448,789**	**(6,867,193)**	**(1,581,596)**	**-**
New financial assets originated	**100,934,490**	**-**	**-**	**100,934,490**
Write-off	**-**	**-**	**(133,922)**	**(133,922)**
Collections / recoveries	**(51,429,627)**	**(5,005,353)**	**(18,245,918)**	**(74,680,898)**
Closing balance as at 31 December	**126,412,626**	**7,572,631**	**9,464,557**	**143,449,814**

	For the year ended 31 December 2022			
2022	Performing	Under-performing	Non-performing	Total
Opening balance as at 1 January	125,692,962	2,059,340	5,592,296	133,344,598
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(11,730,734)	11,730,734	-	-
Individual financial assets transferred to non -performing (credit-impaired financial assets)	(11,249,981)	(1,652,130)	12,902,111	-
Individual financial assets transferred to performing (12-month expected credit losses)	17,487	(17,487)	-	-
New financial assets originated	48,119,245	-	-	48,119,245
Collections / recoveries	(50,577,688)	(4,281,452)	(9,274,559)	(64,133,699)
Closing balance as at 31 December	100,271,291	7,839,005	9,219,848	117,330,144

8.7 Category wise Murabaha finance net of impairment provision is as follows:

	31 December 2023	31 December 2022
Performing	**121,433,499**	95,639,147
Under-performing	**6,869,421**	6,973,261
Non-performing	**5,203,654**	5,025,075
	133,506,574	107,637,483

(Expressed in Saudi Riyals)

9. LEASES

i) Amounts recognised in the statement of financial position

	31 December 2023	31 December 2022
Right-of-use assets		
Office premises and delivery yards	**6,685,562**	3,464,269
Lease liabilities		
Payable within one year	**1,290,458**	436,264
Payable after one year	**5,720,139**	3,304,892
	7,010,597	3,741,156

Additions to the right-of-use assets during 2023 were Saudi Riyals 4.44 million (2022: Saudi Riyals 1.34 million).

ii) Amounts recognised in profit and loss

	Note	**31 December 2023**	31 December 2022
Depreciation charge of right-of-use assets			
Office premises and delivery yards		**1,214,456**	427,799
Finance charge on leases (included in finance charges)	21	**393,266**	216,746

The total cash outflow for leases in 2023 was Saudi Riyals 1.6 million (2022: Saudi Riyals 0.6 million).

iii) Additional information about the Company's leasing activities

The Company has leases in respect of various offices and delivery yards. Rental contracts are typically made for fixed periods of 1 to 3 years but may have extension options as described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in a number of property leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension options held are exercisable only by mutual agreement of the Company and the respective lessor.

(Expressed in Saudi Riyals)

10. PROPERTY AND EQUIPMENT

	Vehicles	Furniture, fixtures, and office equipment	Total
Cost:			
1 January 2022	74,752	2,209,977	2,284,729
Additions during the year	-	309,803	309,803
Disposals		(610)	(610)
31 December 2022	74,752	2,519,170	2,593,922
1 January 2023	**74,752**	**2,519,170**	**2,593,922**
Additions during the year	**-**	**2,325,374**	**2,325,374**
31 December 2023	**74,752**	**4,844,544**	**4,919,296**
Accumulated depreciation:			
1 January 2022	(74,752)	(1,391,006)	(1,465,758)
Charge for the year	-	(292,769)	(292,769)
Disposals		610	610
31 December 2022	(74,752)	(1,683,165)	(1,757,917)
1 January 2023	**(74,752)**	**(1,683,165)**	**(1,757,917)**
Charge for the year	**-**	**(387,142)**	**(387,142)**
31 December 2023	**(74,752)**	**(2,070,307)**	**(2,145,059)**
Carrying amounts:			
31 December 2023	**-**	**2,774,237**	**2,774,237**
31 December 2022	-	836,005	836,005

Useful lives of property and equipment are as follows:

	Number of years
Vehicles	4
Furniture, fixtures and office equipment	3-5

11. INTANGIBLE ASSETS

Intangible assets comprise of computer software and license. The movement in intangible assets is as follows:

	31 December 2023	31 December 2022
Cost		
At 1 January and 31 December	**10,015,785**	10,015,785
Accumulated amortization		
At 1 January	**(7,465,819)**	(6,034,992)
Charge for the year	**(1,244,713)**	(1,430,827)
At 31 December	**(8,710,532)**	(7,465,819)
Carrying amount		
At 31 December	**1,305,253**	2,549,966

12. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Company holds 89,285 shares in Saudi Finance Leasing Contracts Registry Company, a Saudi Joint Stock Company (the "investee Company") registered in the Kingdom of Saudi Arabia for financing contracts registration, which represents 2% of total share capital of the investee Company. The management believes that the carrying value of the investment approximates to the fair value at 31 December 2023 and 2022.

13. SHARE CAPITAL

At 31 December, the issued, subscribed and paid-up share capital of the Company comprised 23 million shares of Saudi Riyals 10 each held as follows:

Party name	Country of incorporation	Shareholding %	
		2023	2022
Al Majdouie Motors Company Limited	Saudi Arabia	**100%**	100%
		Shareholding in Saudi Riyals	
		2023	2022
		230,000,000	230,000,000

14. ACCOUNTS PAYABLE

	Note	31 December 2023	31 December 2022
Accounts payable – third parties		**87,867,602**	17,780,156
Accounts payable – related parties	**22**	**100,068,517**	76,422,070
		187,936,119	94,202,226

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	Note	31 December 2023	31 December 2022
Accrued expenses		**27,940,675**	12,297,431
VAT payable		**5,169,185**	1,938,676
Net servicing liability under agency agreement	25	**1,460,469**	272,094
Advances from customers		**11,685,148**	7,672,117
		46,255,477	22,180,318

16. ZAKAT

a) Zakat charge for the year:

The Company is subject to Zakat in accordance with the regulations of the General Authority for Zakat, Tax, and Customs Authority ("ZATCA"). Zakat expense is charged to the statement of profit or loss and other comprehensive income. Zakat charge for year ended 31 December comprises of the following:

	31 December 2023	31 December 2022
Zakat charge for the year	**411,911**	607,706

(Expressed in Saudi Riyals)

16. ZAKAT (CONTINUED)

b) Zakat base has been computed based on the Company's understanding of the Zakat regulations enforced in the Kingdom of Saudi Arabia. The Zakat regulations in Saudi Arabia are subject to different interpretations. Certain amounts as disclosed in the financial statements are adjusted to reach at Zakat base. Zakat is calculated based on the estimated zakat base attributable to the shareholder of the Company.

c) Provision for zakat:

Movements in provision for zakat for year ended 31 December are as follows:

	31 December 2023	31 December 2022
Balance at beginning of the year	**1,844,833**	2,835,779
Charge for the year	**1,599,234**	607,706
Adjustment for prior year *	**(1,187,323)**	-
Payments during the year	**(461,244)**	(1,598,652)
Balance at end of the year	**1,795,500**	1,844,833

*The Company has excess provision of Zakat for prior year ended 31 December 2021, this was reversed during the current year ended 31 December 2023.

d) Zakat assessment status:

The Company has filed its zakat declarations with the ZATCA up to 2022. ZATCA has finalized Company’s assessments up to 2018, whereas assessments for 2019, 2020, 2021 and 2022 are currently under review by ZATCA.

17. LONG TERM BORROWINGS

	31 December 2023	31 December 2022
Murabaha facilities	**418,731,401**	99,516,667
Government bank loan	**19,960,549**	62,894,998
Payable to SAMA	**21,020,723**	21,872,408
Accrued finance cost	**2,714,370**	525,764
	462,427,043	184,809,837
Due within one year	**140,059,940**	102,708,555
Due after one year	**322,367,103**	82,101,282
	462,427,043	184,809,837

The movement in long term borrowings is as follows:

	31 December 2023	31 December 2022
Balance at the beginning of the year	**184,809,837**	262,413,111
Proceeds from long-term borrowings	**425,478,612**	19,591,324
Finance charges for the year	**19,788,601**	5,267,470
Less: repayments of principal	**(148,305,973)**	(98,119,210)
Less: repayments of finance charges	**(17,599,995)**	(4,342,858)
Discounting impact of interest free loan from SAMA	**(1,744,039)**	-
Balance at end of the year	**462,427,043**	184,809,837

17. LONG TERM BORROWINGS (CONTINUED)

17.1 Murabaha facilities

During 2023, the Company has drawn Saudi Riyals 400 million (2022: Saudi Riyals nil) from its Murabaha facilities. The loans are secured against corporate guarantees from certain related parties, collateral on receivables against certain leased vehicles covering at least 125% to 150% of the outstanding borrowings. The loan agreements contain covenant regarding maintenance of leverage ratio and the Company has complied with this covenant throughout the reporting period. The loans bear financial charges based on prevailing market rates which are based on Saudi Inter Bank Offer Rates. The carrying values of such long-term borrowings are denominated in Saudi Riyals. The repayment of such loans as per the respective repayment schedule is up to 2028. The total Murabaha facilities of the Company as at 31 December 2023 is Saudi Riyals 672 million (2022: Saudi Riyals 300 million), out of which Saudi Riyals 85 million was unutilized as at 31 December 2023 (2022: Saudi Riyals 113.0 million).

17.2 Government bank loan

During 2022, the Company entered into agreements with a government bank to provide financing facilities aggregating to Saudi Riyals 15 million to meet the working capital requirements of the Company, which were fully utilised during the year. Administrative fee is charged by government bank under the loan agreements. The covenants of the borrowing facilities restrict the Company to utilise the loan amounts for the purpose specified in the loan agreements. The carrying values of such long-term borrowings are denominated in Saudi Riyals. The repayment of such loans as per the repayment schedule is up to 2026.

17.3 Payable to SAMA

During 2023, the Company has received interest free loans from SAMA amounting to SR 25.5 million (2022: Saudi Riyals 4.6 million) under the Guaranteed Financing Program to finance micro, small, and medium enterprises (MSMEs) to promote the financial stability of these businesses and boost economic growth. These loans are repayable in monthly installments over 3 years starting September 2023. These loans were initially recognized at their fair value resulting in a gain of SR 1.7 million recognized in profit or loss.

17.4 Contractual maturities of long-term borrowings

The contractual maturities of long-term borrowings are as follows:

	31 December 2023	31 December 2022
Less than 6 months	**86,192,770**	49,649,347
Government bank loan	**80,767,200**	59,787,084
Between 1 and 2 years	**146,993,410**	55,272,375
Between 2 and 5 years	**208,431,906**	31,319,746
	522,385,286	196,028,552

18. EMPLOYEES' END OF SERVICE BENEFITS

18.1 Employee benefit obligations - defined benefit plan

The Company operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Employees' end-of-service benefit plan is unfunded plan and the benefit payment obligation are met when they fall due upon termination of employment. The most recent comprehensive actuarial valuation coincided with the year-end reporting date.

(Expressed in Saudi Riyals)

18. EMPLOYEES' END OF SERVICE BENEFITS (CONTINUED)

	31 December 2023	31 December 2022
At 1 January	**2,581,381**	2,747,024
Current service cost	**717,856**	650,271
Interest cost	**129,741**	70,227
Benefits paid	**(167,474)**	(447,677)
Remeasurements	**332,114**	(207,878)
Transfers	**(118,020)**	(230,586)
At 31 December	**3,475,598**	2,581,381

18.2 Amounts recognised in the statement of profit or loss and comprehensive income

The amounts recognised in the statement of comprehensive income related to employee benefit obligations are as follows:

	31 December 2023	31 December 2022
Current service cost	**717,856**	650,271
Interest expense	**129,741**	70,227
Total amount recognised in profit or loss	**847,597**	720,498
Remeasurements		
Loss from change in financial assumptions	**87,705**	14,295
Loss / (gain) from change in demographic assumptions	**51**	(38,566)
Loss / (gain) from experience adjustments	**244,358**	(183,607)
Total amount recognised in other comprehensive income	**332,114**	(207,878)

18.3 Significant actuarial assumptions

	31 December 2023	31 December 2022
Discount rate	**4.60%**	4.70%
Salary growth rate	**5.00%**	4.70%
Retirement age	**60 years**	60 years

18.4 Sensitivity analysis for actuarial assumptions

	Change in assumption		**Impact on employee benefit obligations**	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
2023				
Discount rate	**50 basis points**	**50 basis points**	**(105,999)**	**112,313**
Salary growth rate	**50 basis points**	**50 basis points**	**115,589**	**(110,117)**
2022				
Discount rate	50 basis points	50 basis points	(75,455)	79,814
Salary growth rate	50 basis points	50 basis points	82,595	(78,803)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

(Expressed in Saudi Riyals)

18. EMPLOYEES' END OF SERVICE BENEFITS (CONTINUED)

18.5 Expected maturity analysis

The weighted average duration of the defined benefit obligation is 6.27 years (2022: 6.01 years). The expected maturity analysis of undiscounted employee benefit obligations is as follows:

	31 December 2023	31 December 2022
Less than a year	**448,482**	355,549
Between 1 - 2 years	**547,976**	402,190
Between 2 - 5 years	**1,902,637**	1,398,431
Over 5 years	**5,117,581**	3,554,531
	8,016,676	5,710,701

19. INCOME FROM FINANCING ACTIVITIES

	31 December 2023	31 December 2022
Income from finance leases	**86,063,886**	44,119,391
Income from Murabaha finance	**15,798,321**	14,697,006
	101,862,207	58,816,397

20. OTHER EXPENSES

	31 December 2023	31 December 2022
Professional fees	**3,714,664**	3,404,795
Software license and support	**3,101,511**	1,747,317
Advertising and marketing	**1,652,559**	518,131
Bank charges	**1,082,097**	679,885
Board of Directors fees	**650,592**	386,000
Others	**4,335,488**	3,604,239
	14,536,911	10,340,367

21. FINANCE CHARGES

	Note	**31 December 2023**	31 December 2022
Finance cost on long-term borrowings	17	**19,788,601**	5,267,470
Finance charge on servicing liabilities		**1,855,043**	1,122,384
Finance charge on leases	9	**393,266**	216,746
		22,036,910	6,606,600

(Expressed in Saudi Riyals)

22. RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent shareholders, directors and key management personal of the Company, and entities controlled or significantly influenced by such parties. Amount due from / to related parties are disclosed in the statement of financial position.

Transactions with related parties mainly include collections on behalf of the Company, certain expenses and services which are undertaken at mutually agreed terms and conditions. These transactions are approved by management of the following entities and Board of Directors of the Company.

Transactions with related parties:

Nature of transaction	Relationship	31 December 2023	31 December 2022
Purchases of motor vehicles	Shareholder	**224,629,545**	144,098,378
Commission income on lease of motor vehicles	Shareholder	**17,860,063**	4,005,846
Lease payments	Shareholder	**841,821**	544,322
	Shareholder	**118,020**	230,586
Key management personnel compensation			
Short term employee benefits		**4,317,935**	1,691,561
Employees' end of service benefits		**131,568**	39,934
Board of Directors fees		**650,592**	386,000

The above-mentioned significant transactions with related parties resulted in the following balances:

Due to related parties:

	31 December 2023	31 December 2022
Al Majdouie Motors Company Limited ("Motors") – shareholder	**99,416,372**	76,158,080
Al Majdouie Holding Company Limited - intermediate parent Company	**453,818**	218,436
Arjaa Travel and Tourism Company	**96,130**	11,200
Arsal Operation and Maintenance Company	**101,607**	32,624
Al Majdouie Logistics Company Limited	**590**	1,730
	100,068,517	76,422,070

23. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

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

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs that are unobservable. This is the case for unlisted equity securities.

(Expressed in Saudi Riyals)

23. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

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

All financial assets and financial liabilities of the Company are categorized as held at amortised cost except for financial assets at fair value through other comprehensive income. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

The breakdown of these financial assets and liabilities is as follows:

	Note	**31 December 2023**	31 December 2022
Financial assets			
FVTOCI - Level 3			
Financial asset at fair value through other comprehensive income	12	**892,850**	892,850
Financial assets at amortised cost			
Cash and cash equivalents	5	**3,807,756**	16,404,400
Net investment in finance leases	7	**771,555,739**	380,404,755
Net investment in Murabaha finance	8	**115,891,323**	95,271,587
Other receivables		**2,901,961**	2,076,025
		895,049,629	495,049,617
Financial liabilities			
Liabilities at amortised cost			
Long-term borrowings	17	**462,427,043**	184,809,837
Accounts payable	14	**187,936,119**	94,202,226
Accrued and other liabilities		**19,163,770**	8,892,224
Lease liabilities	9	**7,010,597**	3,741,156
		676,537,529	291,645,443
Net financial assets		**218,512,100**	203,404,174

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company’s activities expose it to a variety of financial risks: market risk (including currency risk and commission rate risk), credit risk and liquidity risk. The Company’s overall risk management program, which is carried out by senior management, focuses on having cost effective funding as well as managing financial risks to minimize earning volatility and provide maximum return to shareholders. The risks faced by the Company and their respective mitigating strategies are summarized below.

24.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause a financial loss to the Company. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

The management analyses credit risk into the following categories:

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

24.1 Credit risk (Continued)

Net investment in finance leases and Murabaha finance

The Company currently generates revenues from leasing of motor vehicles and Murabaha finance in the Kingdom of Saudi Arabia. Financing activities of the Company are related to corporate and retail customers. Investment in finance lease and Murabaha finance receivables is generally exposed to significant credit risk. Therefore, the Company has established procedures to manage credit exposure including evaluation of customers' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral and personal guarantees whenever considered necessary. The Company also follows a credit classification mechanism as a tool to manage the quality of credit risk of the lease and Murabaha portfolio and grades the individual customers based on both subjectivity and payment history taking into consideration factors such as customer credit standing, financial strength, security and quality of management. The Company monitors customers' grading on a regular basis. Collections from customers are made in the form of monthly installments generally received through variable channels such as SADAD and bank transfers.

The Company has approved collection policies and procedures establishing a collection strategy to follow up with the delinquent customers. In order to monitor exposure to credit risk, reports are reviewed by the Risk Committee on a quarterly basis. Furthermore, the Company has also strengthened its legal department in order to be actively involved in the collection process of delinquent customers.

The Company’s investment in finance leases and Murabaha finance contracts comprises individually immaterial balances due from a large customer base and accordingly, the Company does not have any significant concentration of credit risk. The credit risk on net investment in finance leases is also mitigated by the retention of legal title documents of the leased assets. The estimated value of collaterals (i.e. leased vehicles) held against non-performing lease receivables at 31 December 2023, amounted to Saudi Riyals 16.4 million (2022: Saudi Riyals 21.6 million).

Measurement of ECL

The Company applies the IFRS 9 general approach to measuring expected credit losses which uses a 12 month or lifetime expected loss allowance as applicable for investment in finance leases and Murabaha finance. The Company’s ECL model is sensitive to macroeconomic variables such as inflation, real GDP growth and government expenditure. Management evaluates changes in such macroeconomic factors on a periodic basis and has recognised the corresponding impact on the calculation of ECL as at 31 December 2023.

The assessment of credit risk in the net investment in finance leases and Murabaha finance requires further estimation of credit risk using ECL which is derived by Probability of default (“PD”), Exposure at Default (“EAD”) and Loss Given Default (“LGD”).

The Company measures an ECL at a contract level considering the EAD, PD, LGD, potential impact of forward looking macro-economic factors and discount rates. PD estimates are estimates at a certain date, based on the term structures as provided below. For LGD estimates, the Company applies certain percentage on unsecured exposures in accordance with SAMA guidelines subject to a minimum LGD floor percentage. 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 i.e. contractual repayments. For discounting, the Company has used each contract's effective interest rate.

Management believes that adequate provision has been accounted for, where required to address the credit risk. Further details related to net investment in finance leases and Murabaha finance and related risk are presented in Note 3.2, Note 7 and Note 8 to these financial statements.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

24.1 Credit risk (Continued)

a) Generating the term structure of PD

PD measures the estimated likelihood of default over a time period. PD has been calculated as a probability that an exposure will move to more than 90 days past due in the next 12 months or over the remaining lifetime of the obligation. "Through the cycle" default rates are calculated, which are later converted to Point-in-time PD using scalar factors by incorporating forward-looking information.

b) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, management considers the 'days past due' analysis of each exposure and certain other qualitative factors such as forbearance status, repayment capacity etc. Management considers such analysis to be an effective and efficient measure of monitoring significant increase in credit risk, without undue cost and effort.

c) 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 an extensive exercise carried out by management, it had concluded to use inflation and real GDP growth for corporate portfolio and inflation and government expenditure for retail portfolio as the macroeconomic factors to incorporate the impact of forward-looking information into the measurement of ECL whereby each factor has been assigned an equal weightage. Such conclusion was reached after performing a correlation analysis between portfolio default rates and Saudi macroeconomic variables, i.e. real GDP growth, nominal GDP, inflation rate, unemployment rate and government expenditure, and considering the strength of linear relationship. The Company measures the ECL as either a probability-weighted 12-month ECL (Stage 1) or a probability-weighted lifetime ECL (Stage 2 and 3). These probability weighted ECLs are determined by running each scenario through the ECL model and multiplying it by the appropriate scenario weightings of 50%, 20% and 30% for "base", "positive" and "negative" scenarios respectively. Management updates the inputs with respect to macroeconomic factors to their ECL model on an annual basis based on the latest available information.

d) Changes in assumptions

In accordance with the requirement of the applicable accounting framework, management of the Company revisits all inputs and assumptions used for the determination of ECL on a periodic basis. During 2023, management of the Company has performed an exercise to update the calculation and certain inputs and assumptions used for the determination of ECL. The adjustments primarily represent updates to the probabilities of default (PD), which are based on recovery patterns of the Company's receivable balances under its financing portfolio, and other macroeconomic factors.

e) Sensitivity analysis:

An increase or decrease of 10% in the inflation and real GDP growth variables with all other variables held constant will not result in any material impact on the ECL allowance.

An increase or decrease of 10% in the government expenditure variables with all other variables held constant will result in an increase/decrease of Saudi Riyals 0.52 million, in the ECL allowance.

An increase or decrease of 10% in the loss rates (PDs and LGDs) assuming macro-economic factors remain the same, will result in an increase of Saudi Riyals 2.8 million or a decrease of Saudi Riyals 2.8 million respectively, in the ECL allowance.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

24.1 Credit risk (Continued)

Cash and cash equivalents and other receivables

The Company uses "low credit risk" practical expedient for the cash and cash equivalents with the assumption that the credit risk on such financial instruments has not increased significantly since initial recognition, and therefore the ECL is estimated at an amount equal to the expected credit losses for a period of 12 months.

Cash and cash equivalents are placed with banks having minimum credit ratings of A3 or better, and therefore are not subject to significant credit risk. The stated rating is as per the global bank ratings by Moody's Investors Service. Management does not expect any losses from non-performance by these counterparties. At 31 December 2023 and 2022, the ECL allowance on cash at bank was immaterial.

Other financial assets at amortised cost include other receivables. These instruments are considered to be low credit risk since they have a low risk of default and the issuers have a strong capacity to meet their contractual cash flow obligations in the near term. At 31 December 2023 and 2022, the ECL allowance on other financial assets was immaterial.

24.2 Commission rate risk

Commission rate risk is the uncertainty of future earnings and expenses resulting from fluctuations in commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to commission rate adjustment within a specified period. The most important source of such risk is the Company's leasing activities, Murabaha financing and long-term borrowings. As at the statement of financial position date, the Company has commission bearing financial assets of Saudi Riyals 887.4 million (31 December 2022: Saudi Riyals 475.7 million). However, the commission rates have been agreed with the respective customers at the inception of the contract with the customers.

Further, the Company also had variable commission bearing financial liabilities of Saudi Riyals 462.4 million (31 December 2022: Saudi Riyals 184.8 million), and had the commission rate varied by 1% with all the other variables held constant, total comprehensive income /loss for the year would have been approximately Saudi Riyals 3.2 million (31 December 2022: Saudi Riyals 2.2 million) higher / lower, as a result of lower / higher finance cost on floating rate borrowings.

24.3 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's financial assets and liabilities are not exposed to fair value and cash flow interest rate risks.

24.4 Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company's financial instruments are not exposed to price risk.

24.5 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company has no significant exposure to currency risk as it mainly deals in Saudi Riyals which is also the functional currency of the Company.

(Expressed in Saudi Riyals)

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

24.6 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters. In addition, the Company has access to credit facilities.

Cash flow forecasting is performed by the management which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance and compliance with internal ratio targets.

As at date of statement of financial position, the contractual maturities of the Company's financial assets and financial liabilities are as follows:

	Up to one year	**One to three years**	**More than three years**	**Total**
Financial assets - commission bearing:				
Gross investment in finance leases	269,597,208	449,955,486	400,273,855	**1,119,826,549**
Gross investment in Murabaha finance	81,721,818	60,344,112	1,383,884	**143,449,814**
	351,319,026	510,299,598	401,657,739	**1,263,276,363**
Financial assets - non commission bearing:				
Cash and cash equivalents	3,807,756	-	-	**3,807,756**
Other receivables	2,901,961	-	-	**2,901,961**
2023	**358,028,743**	**510,299,598**	**401,657,739**	**1,269,986,080**
2022	268,773,374	234,963,223	177,837,771	681,574,368
Financial liabilities - commission bearing:				
Lease liabilities	1,660,888	2,680,384	4,070,620	**8,411,892**
Long-term borrowings	166,959,970	302,465,161	52,960,155	**522,385,286**
	168,620,858	305,145,545	57,030,775	**530,797,178**
Financial liabilities - non commission bearing:				
Accounts payable	187,936,119	-	-	**187,936,119**
Accrued and other liabilities	19,163,770	-	-	**19,163,770**
2023	**375,720,747**	**305,145,545**	**57,030,775**	**737,897,067**
2022	213,171,301	86,899,507	3,786,700	303,857,508
Net financial assets (liabilities)				
Commission bearing	182,698,168	205,154,053	344,626,964	**732,479,185**
Non-commission bearing	(200,390,172)	-	-	**(200,390,172)**
2023	**(17,692,004)**	**205,154,053**	**344,626,964**	**532,089,013**
2022	55,602,073	148,063,716	174,051,071	377,716,860

(Expressed in Saudi Riyals)

25. FINANCE LEASE RECEIVABLE – PURCHASE AND AGENCY AGREEMENT

During 2020, the Company sold its finance lease receivables under a purchase and agency agreement, amounting to SR 77.3 million to a financial institution and derecognized the same from its books, and recorded a net gain of SR16.6 million on the derecognition. In respect of these sold finance lease receivables, the Company acts in the capacity of a servicing agent for subsequent collection of lease instalments on behalf of financial institution.

Under the purchase and agency agreement, the Company has been appointed by a financial institution to service the receivables sold to such financial institution against a servicing fee. The Company initially recognizes either a net servicing asset or a net servicing liability for that servicing contract at its fair value. The fair value of net servicing asset / liability is determined based on the present value of estimated future cash flows related to contractually specified servicing fees less servicing costs. The primary determinants of the fair value of net servicing asset / liability are discount rates, estimates of servicing costs and the fixed servicing fees. The management assesses the cost of servicing at the end of each reporting period. Variations in one or a combination of these assumptions could affect the estimated values of a net servicing liability.

The outstanding position of sold finance lease receivables has been disclosed below.

	31 December 2023	31 December 2022
Finance lease receivables sold under securitization agreements	**27,738,459**	47,700,415
Due within one year	**19,943,328**	11,911,491
Due after one year	**10,321,843**	44,449,450
	30,265,171	56,360,941

26. NET SERVICING LIABILITY UNDER AGENCY AGREEMENT

Under the purchase and agency agreement, the Company has been appointed by a financial institution to service the receivables sold to such financial institution against a servicing fee. The Company initially recognizes either a net servicing asset or a net servicing liability for that servicing contract at its fair value.

The fair value of net servicing asset / liability is determined based on the present value of estimated future cash flows related to contractually specified servicing fees less servicing costs. The primary determinants of the fair value of net servicing asset / liability are discount rates, estimates of servicing costs and the fixed servicing fees. The management assesses the cost of servicing at the end of each reporting period. Variations in one or a combination of these assumptions could affect the estimated values of a net servicing liability.

27. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard Company's ability to continue as a going concern in order to provide returns for the shareholders and benefits to other stakeholders and to maintain optimal capital structure to reduce the cost of capital. Borrowings represent long-term borrowings, loan from a shareholder and lease liabilities. The management analyses the gearing ratio as follows:

	31 December 2023	31 December 2022
Equity	**211,698,533**	204,685,313
Borrowings	**469,437,640**	188,550,993
Total	**681,136,173**	393,236,306
Gearing ratio (borrowing as a percentage of total)	**68.92%**	47.95%

(Expressed in Saudi Riyals)

27. CAPITAL RISK MANAGEMENT (CONTINUED)

Further, the Company monitors aggregate amount of financing offered by the Company in line with the regulatory requirements of SAMA, which requires companies engaged in financing other than real estate, not to exceed aggregate financing to capital ratio of five times, which is calculated by dividing net investment in finance lease and Murabaha finance contracts by total equity.

	31 December 2023	31 December 2022
Net investment in finance lease and Murabaha finance contracts	**887,447,062**	475,676,342
Total equity	**211,698,533**	204,685,313
Aggregate financing to capital ratio	**4.2**	2.3

28. CONTINGENCIES AND COMMITMENTS

The Company has no commitments and contingent liabilities as at 31 December 2023 (31 December 2022: Nil).

29. EVENTS AFTER THE REPORTING DATE

There were no significant events between the date of financial statements and its approval which requires adjustments / disclosure in these financial statements.

30. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved on 15 Shaban 1445H corresponding to 25 February 2024G.