

**Al-Yusr Leasing and Financing Company**  
(A Saudi Closed Joint Stock Company)  
**Riyadh– Saudi Arabia**  
**Financial Statements and**  
**Independent Auditor's Report**  
**For the year ended December 31, 2020**

**Al-Yusr Leasing and Financing Company**  
(A Saudi Closed Joint Stock Company)  
**Riyadh - Saudi Arabia**  
**Financial Statements and Independent Auditor's Report**  
**For the year ended December 31, 2020**

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# ASSOCIATED ACCOUNTANTS

Houmod Al Robian and Co. - Certified Accountants and Consultants

## Independent Auditor's Report

To, The Shareholders  
**Al-Yusr Leasing and Financing Company**  
(A Saudi Closed Joint Stock Company)  
**Riyadh - Saudi Arabia**

### Opinion:

We have audited the financial statements of **Al-Yusr Leasing and Financing Company** which comprises of financials position as at December 31, 2020 and the related statements profit or loss and other comprehensive income, changes in shareholders' equity, and cash flows for the year then ended and a summary of significant accounting policies and explanatory notes from 1 to 33.

In our opinion, the financial statements referred to above in whole present fairly, in all material respects, the financial position of **Al-Yusr Leasing and Financing Company** as of December 31, 2020 and the results of its operations, changes in shareholders equity, and its cash flows for the year then ended are in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants.

### Basis for Opinion:

We conducted our audit in accordance with the International Standards on Auditing ("ISAs") that are endorsed 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Saudi Arabia, and we have fulfilled our other ethical responsibilities in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and its interpretations as issued by the International Accounting Standards Board ("IASB") as endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (SOCPA), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance 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 guarantee that an audit conducted in accordance with the ISAs 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of those financial statements.





# ASSOCIATED ACCOUNTANTS

Houmod Al Robian and Co. - Certified Accountants and Consultants

## Independent Auditor's Report (continued)

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

As part of an audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

We also provide those charged with governance with a statement that we have compiled with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Date: March 03, 2021



Associated Accountants  
Independent Member of Geneva Group International

Hamoud Ali Al-Rubian  
(License No. 222)

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**Al-Yusr Leasing and Financing Company**  
(A Saudi Closed Joint Stock Company)  
**Statement of Financial Position**  
**As at December 31, 2020**  
(Saudi Riyal)

	Note	2020	2019
<b><u>Assets</u></b>			
Cash and cash equivalents	6	105,105,843	36,613,543
Other receivables and prepayments	7	852,180,436	228,291,435
Due from related parties	8	95,373,891	2,759,156
Net investment in Islamic financings	9	1,589,882,924	2,545,466,117
Margin deposits – restricted	10	133,102,147	163,870,328
Investment carried at FVOCI	11	892,875	892,875
Property and equipment	12	6,056,297	10,054,780
Intangible assets	13	1,955,843	3,449,446
Right-of-use assets	14	7,689,889	13,123,066
<b>Total Assets</b>		<b>2,792,240,145</b>	<b>3,004,520,746</b>
<b><u>Shareholders' Equity and Liabilities</u></b>			
Shareholders' Equity:			
Share capital	15	500,000,000	500,000,000
Statutory reserve	16	98,512,706	98,512,706
Retained earnings		462,347,806	542,734,751
Actuarial gain on employees' post-employment benefits	22	5,282,378	1,194,964
<b>Total shareholders' equity</b>		<b>1,066,142,890</b>	<b>1,142,442,421</b>
Liabilities:			
Trade payables	17	24,655,069	96,959,030
Other payables and accruals	18	291,402,700	122,088,676
Lease liabilities	14	4,898,582	8,874,853
Due to related parties	8	320,665	141,437,643
Net servicing liability for securitized receivables	19	65,231,776	121,823,384
Provision for zakat	20	31,922,585	29,828,363
Borrowings	21	1,289,911,878	1,319,652,376
Employees' post-employment benefits	22	17,754,000	21,414,000
<b>Total liabilities</b>		<b>1,726,097,255</b>	<b>1,862,078,325</b>
<b>Total shareholders' equity and liabilities</b>		<b>2,792,240,145</b>	<b>3,004,520,746</b>

The accompanying notes from 1 to 33 are an integral part of these financial statements

**Al-Yusr Leasing and Financing Company**

(A Saudi Closed Joint Stock Company)

**Statement of Profit or Loss and Other Comprehensive Income****For the three and nine Months Period Ended December 31, 2020**

(Saudi Riyal)

	Note	2020	2019
<b><u>Income</u></b>			
Income From Islamic Financing, Net	23	197,405,793	346,311,165
Other Income	24	26,281,896	33,730,899
<b>Total Operation Income</b>		<b>223,687,689</b>	<b>380,042,064</b>
<b><u>Operating Expenses</u></b>			
Salaries, wages and other benefits		(97,163,578)	(118,425,119)
Finance cost	25	(75,036,008)	(97,719,186)
Impairment on Islamic Financing, net	26	(49,339,247)	(195,667,653)
Other expenses	27	(48,950,192)	(37,603,101)
Loss from collection deferment	9.6	(33,694,845)	-
Depreciation and Amortization	28	(12,211,653)	(11,511,423)
Income rescheduling losses		(3,895,606)	-
Reversal of impairment of margin deposits	10.1	21,295,680	63,230,787
Reversal of provision in respect of present value of margin deposit	10.2	6,992,642	7,189,201
Loss on disposal of repossessed asset		-	(15,232,287)
<b>Total Operation Expenses</b>		<b>(292,002,807)</b>	<b>(405,738,781)</b>
<b>Loss before zakat</b>		<b>(68,315,118)</b>	<b>(25,696,717)</b>
Zakat charge for the year	20	(12,071,827)	(3,226,987)
Reversal of zakat for prior years		-	41,831,652
<b>Net (loss)/ income for the year</b>		<b>(80,386,945)</b>	<b>12,907,948</b>
Acturial gain from remeasurement of employee obligation	22	4,087,414	8,637,169
<b>Total comprehensive (loss) / income for the year</b>		<b>(76,299,531)</b>	<b>21,545,117</b>

The accompanying notes from 1 to 33 are an integral part of these financial statements



**Al-Yusr Leasing and Financing Company**  
(A Saudi Closed Joint Stock Company)  
**Statement of Changes in Shareholders' Equity**  
**For the year ended December 31, 2020**  
(Saudi Riyal)

	Share capital	Statutory reserve	Retained earnings	Actuarial gain on employees' post-employment benefits	Total
<b>2019</b>					
Balance as at December 31, 2018 (restated)	500,000,000	97,221,911	531,117,598	(7,442,205)	1,120,897,304
Net income for the year	-	-	12,907,948	-	12,907,948
Other comprehensive income	-	-	-	8,637,169	8,637,169
Transfer to statutory reserve	-	1,290,795	(1,290,795)	-	-
<b>2020</b>					
Balance as at December 31, 2019	500,000,000	98,512,706	542,734,751	1,194,964	1,142,442,421
Net loss for the year	-	-	(80,386,945)	-	(80,386,945)
Other comprehensive income	-	-	-	4,087,414	4,087,414
<b>Balance as at December 31, 2020</b>	<b>500,000,000</b>	<b>98,512,706</b>	<b>462,347,806</b>	<b>5,282,378</b>	<b>1,066,142,890</b>

The accompanying notes from 1 to 33 are an integral part of these financial statements

**Al-Yusr Leasing and Financing Company**  
(A Saudi Closed Joint Stock Company)  
**Statement of Cash Flows**  
**For the year ended December 31, 2020**  
(Saudi Riyal)

	2020	2019
<b>Cash Flows From Operating Activities</b>		
Loss for the period before zakat	(68,315,118)	(25,696,717)
Adjustments to reconcile net loss before zakat to net cash flows provided by operating activities:		
Depreciation of right of use assets	6,046,062	6,322,042
Depreciation of property and equipment	4,427,671	3,218,910
Amortization of intangibles	1,737,920	1,970,471
Impairment of Islamic financing, net	49,339,247	224,212,245
Reversal of Impairment on margin deposits	(21,295,680)	(63,230,787)
Reversal of provision in respect of present value of margin deposits	(6,992,642)	(7,189,201)
Loss from collection deferment	33,694,845	-
Finance cost	75,036,008	97,719,186
Write-offs of property and equipment	-	5,392
Provision for employees' post-employment benefits	3,307,000	3,821,000
	<u>76,985,313</u>	<u>241,152,541</u>
Changes in working capital:		
(Increase)/decrease in operating assets:		
Other receivables and prepayments	(647,127,749)	94,965,839
Due from related parties	(126,309,580)	(386,901)
Net investment in Islamic financing	897,822,733	(133,706,784)
Margin deposit – restricted	59,056,503	69,186,397
Increase/(decrease) in operating liabilities:		
Trade payables	(72,303,963)	30,339,976
Other payables and accruals	200,973,988	(57,236,331)
Due to a related party	(141,116,978)	8,860,344
Net servicing liability for securitized receivables	(56,591,608)	(164,451,647)
Zakat paid	(9,977,604)	(51,381,332)
Lease liability paid	(5,056,780)	(6,445,780)
Employees' post-employment benefits paid	(2,879,386)	(2,144,000)
Net cash generated from operating activities	<u>173,474,889</u>	<u>28,752,322</u>
<b>Cash Flows From Investing Activities</b>		
Acquisition of property and equipment	(429,186)	(6,548,073)
Addition of intangible assets	(244,317)	(960,254)
Net cash used in investing activities	<u>(673,503)</u>	<u>(7,508,327)</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds from borrowings	1,407,615,658	1,473,806,367
Repayment of borrowings	(1,451,810,035)	(1,549,847,197)
Finance cost paid	(60,114,709)	(96,882,685)
Net cash used in financing activities	<u>(104,309,086)</u>	<u>(172,923,515)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<u>68,492,300</u>	<u>(151,679,520)</u>
Cash and cash equivalents at beginning of the year	<u>36,613,543</u>	<u>188,293,063</u>
<b>Cash and cash equivalents at end of the year</b>	<u>105,105,843</u>	<u>36,613,543</u>

The accompanying notes from 1 to 33 are an integral part of these financial statements



**Al-Yusr Leasing and Financing Company**  
(A Saudi Closed Joint Stock Company)  
**Notes to the financial statements**  
**For the year ended December 31, 2020**

**1-Legal Status and operations**

Al-Yusr Leasing and Financing Company ("the Company") is a Saudi Closed Joint-Stock Company registered in Riyadh in the Kingdom of Saudi Arabia under CR. No. 1010192058 issued on 20 Shawal 1424H corresponding to 14 December 2003G.

The main activities of the Company are to engage in Islamic finance lease, financing of small and medium-sized enterprises, financing of productive assets and consumer finance under the Saudi Arabian Monetary Authority (SAMA) license No. (10/AO/201403) issued on 27 Rabi' al-Thani 1435H corresponding to 28 February 2014G.

The Company's Head Office is located at the following address;

Al-Yusr Leasing and Financing Company  
Salah Uddin Ayubi Street, Al Malaz  
P.O. Box 25773  
Riyadh 11476  
Kingdom of Saudi Arabia

These interim condensed financial statements include the results, assets and liabilities of the following branches:

<u>Branch</u>	<u>CR. No.</u>	<u>Date</u>
Riyadh-Damman Road	1010404025	9 Rabi' al-Thani 1435H
Riyadh-Exit 5	1010404022	9 Rabi' al-Thani 1435H
Riyadh-Exit 10	1010404068	9 Rabi' al-Thani 1435H
Riyadh-Exit 25	1010404018	9 Rabi' al-Thani 1435H
Riyadh-Khuraish Road	1010404065	9 Rabi' al-Thani 1435H
Hafr Al Baten	1010429749	24 Rabi' al-Awal 1436H
Hafr Al Baten	2511020230	12 Thul-Qi'dah 1434H
Oniza	1128017776	13 Rabi' al-Thani 1435H
Hail	3350037814	25 Safar 1434H
Sekaka	3400017706	13 Rabi' al-Thani 1435H
Tabouk	3550033063	5 Rabi' al-Thani 1435H
Dammam	2050098038	11 Rabi' al-Thani 1435H
Dammam	2051028846	20 Thul-Qi'dah 1424H
Al Qateef	2053022257	10 Thul-Qi'dah 1431H
Al-Jubail	2055021890	9 Rabi' al-Thani 1435H
Al Ihsaa	2252034974	12 Jumada al-Ula 1428H
Jeddah – Rowdah	4030170831	22 Jumada al-Akhirah 1428H
Jeddah – Al Jawahra	4030283344	4 Rabi' al-Thani 1436H
Makkah	4031060371	01 Thul-Qi'dah 1431H
Yanbu	4700017653	02 Jumada al-Akhirah 1435H
Madinah Monawarah-Aziziah	4650055494	02 Jumada al-Ula 1433H
Khamis Mshait	5855044025	24 Jumada al-Akhirah 1433H
Jazan	5900027559	17 Rabi' al-Thani 1435H
Riyadh	1010442499	14 Jumada al-Ula 1437H
Kharj	1011020863	5 Safar 1435H
Madinah	1131051618	13 Rabi' al-Thani 1435H

**Al-Yusr Leasing and Financing Company**  
(A Saudi Closed Joint Stock Company)  
**Notes to the financial statements**  
**For the year ended December 31, 2020**

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**2- Basis Of Preparation**

**2.1-Statement Of Compliance**

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

**2.2-Basis of measurement**

These interim condensed financial statements are prepared under the historical cost except for the following:

- a) Employees' post-employment benefits are recognized at the present value of future obligations using the Projected Unit Credit Method.
- b) Investments that are measured at fair value

**2.3-Functional and presentation currency**

These interim condensed financial statements have been presented in Saudi Riyals (SR) which is the Company's functional and presentation currency. All financial information presented in Saudi Arabian Riyals has been rounded to the nearest Saudi Riyal, unless otherwise mentioned.

**3- Significant Accounting Estimates And Judgements**

The preparation of financial statements in conformity with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") which require management to make judgments, estimates, and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates is recognized in the year in which the estimates are revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

**Going concern**

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

**Determination of servicing assets/liability**

The Company enters into securitization and agency arrangements with banks. Under these arrangements, the Company has been appointed by the banks to service the receivables purchased by the banks. Assumptions used to calculate the servicing assets/liability are based on estimates of collection costs to be incurred by the Company over the life of the individual securitization and agency transaction, executed under the respective securitization and agency agreement.

**Determination of discount rate for present value calculations**

Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration the tenure of the agreement and the individual risks of the underlying assets. The discount rate calculation is based on the specific circumstances of the Company.



### **3- Significant Accounting Estimates And Judgements(Continued)**

#### **Actuarial valuation of employee benefits liabilities**

The cost of the employees' post-employment benefits ("employee benefits") under defined benefits plan is determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently if required.

#### **Useful lives of property and equipment**

The Company's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

#### **Measurement of expected credit loss allowance**

The measurement of expected credit loss allowance for the financial assets measured at amortized cost and FVOCI is the area that requires the use of models and significant assumptions about future economic conditions and credit behavior (such as the likelihood of customer defaulting and resulting losses). Explanation of inputs, assumptions, and estimation techniques used in measuring ECL is further detailed in notes, which also sets out the key sensitivities of the ECL to change these elements.

A number of significant judgments are also required in applying accounting requirements for measuring the ECL, such as:

- Determining the criteria for a significant increase in credit risk
- Choosing appropriate models and assumptions for measurement of ECL
- Establishing the number and relative weighting of forward-looking scenarios for each type of industrial sector and associated ECL
- Establishing a group of similar financial assets for the purpose of measuring ECL.

#### **Business model assessment**

Classification and measurement of financial assets depend on the results of the SPPI and the business model test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized before their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

#### **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, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks, and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relates to the Company's core operations.



**Al-Yusr Leasing and Financing Company**  
(A Saudi Closed Joint Stock Company)  
**Notes to the financial statements**  
**For the year ended December 31, 2020**

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**3- Significant Accounting Estimates And Judgements(Continued)**

**Impairment of net investment in Islamic financing.**

The Expected Credit Loss ("ECL") model contains a three-stage approach that is based on the change in the credit quality of financial assets since initial recognition. The ECL model is forward-looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

**Stage 1:** 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months and Loss Given Default (LGD) and profit is calculated on a gross basis;

**Stage 2:** Under Stage 2, where there has been a SICR since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the lifetime ECL will be recorded which is computed using lifetime PD, LGD and Exposure at Default (EAD) and profit is calculated on a gross basis. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1;

**Stage 3:** Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit-impaired and an amount equal to the lifetime ECL will be recorded for the financial assets and profit is calculated on a net basis.

**Fair value measurement and valuation process**

Some of the Company's assets and liabilities are measured at fair value for financial reporting purposes. The Company's Chief Financial Officer is responsible to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company engages third party qualified valuers to perform the valuation. The Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

**4- Significant Accounting Policies**

The Significant accounting policies applied in the preparation of these financial statements are set forth below. These accounting policies have been applied consistently to all the years presented, except as disclosed in note 3.

**Cash and cash equivalents**

Cash and cash equivalents may include cash in hand and at banks and other short-term highly liquid investments, with original maturities of three months or less from the purchase date, if any.

**Leases**

**Lease arrangements where the Company is a lessor**

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognized as receivables at an amount equal to the net investment in the lease. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

**Ijara  
receivables**

Ijara finance is an agreement wherein gross amounts due under originated Ijara (finance) includes the total of future payments on Ijara finance, plus estimated residual amounts receivable (by an option to purchase the asset at the end of the respective financing term through an independent sale contract). The difference between the Ijara contracts receivable and the cost of the Ijara assets is recorded as unearned Ijara finance income and for presentation purposes, is deducted from the gross amounts due under Ijara finance.



#### **4- Significant Accounting Policies (Continued)**

##### **Leases(Continued)**

##### **Lease arrangements where the Company is a lessee**

##### **The Company's leasing activities and how these are accounted for**

The Company leases buildings. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options. 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, but leased assets may not be used as security for financing purposes.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to statement of profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that is based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease if that rate can be determined, or the Company's incremental financing rate of 6%.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and;
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the statement of profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

##### **Extension and termination options**

Extension and termination options are included in a number of property leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

##### **Residual value guarantees**

To optimize lease costs during the contract period, the Company sometimes provides residual value guarantees in relation to equipment leases.

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**4- Significant Accounting Policies (Continued)**

**Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

**Financial assets**

**Initial measurement**

At initial recognition, the Company recognizes the financial asset at its fair value.

**Murabaha receivables**

Murabaha is an agreement whereby the Company sells to a customer an asset, which the Company has purchased or acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Murabaha sale contract include the total of future sale payments on the Murabaha agreement (Murabaha sale contract receivable). The difference between the Murabaha sale contract receivable and the cost of the sold asset is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the Murabaha sale contract receivable.

**Tawarruq receivables**

Tawarruq is an agreement whereby the Company sells to a customer an asset, which the Company has purchased and after such sale, arranges to sell the underlying asset and disburses the sale proceeds to the customer. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Tawarruq sale contract include the total sale payments on the Tawarruq agreement (Tawarruq sale contract receivable). The difference between the Tawarruq sale contract receivable and the cost of the sold asset is recorded as unearned Tawarruq profit and for presentation purposes, is deducted from the gross amounts due under the Tawarruq sale contract receivable.

**Subsequent measurement**

After initial recognition financial assets can be measured at Amortised cost, Fair value through other comprehensive income ("FVOCI") or Fair value through profit and loss ("FVTPL").

**Financial asset at amortized cost**

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

**Financial asset at FVOCI**

**Debt Instruments**

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

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



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**4- Significant Accounting Policies (Continued)**

**Financial instruments(Continued)**

**Equity Instruments**

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

**Financial assets at FVTPL**

All other financial assets are classified as measured at FVTPL.

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

Financial assets are not reclassified subsequent to their initial recognition, except in the year after the Company changes its business model for managing financial assets.

**Business model assessment**

The Company assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume, and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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**4- Significant Accounting Policies (Continued)**

**Assessments whether contractual cash flows are solely payments of principal and profit**

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company's claim to the cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

**Derecognition of financial assets**

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

On derecognition of a financial asset in its entirety, the difference between:

- i) the carrying amount (measured at the date of derecognition) and
- ii) the consideration received (including any new asset obtained less any new liability assumed) shall be recognized in profit or loss.

**Modification**

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, The Company recalculates the gross carrying amount of the financial asset and recognize a modification gain or loss in the statement of profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

**Reclassification**

Financial assets are reclassified when the Company changes its business model for managing financial assets. For example, when there is a change in management's intention to hold the asset for a short term or long term. Financial liabilities are not reclassified.



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**4- Significant Accounting Policies (Continued)**

**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 Islamic financing, the Company applies the three-stage model ('general model') for impairment based on changes in credit quality since initial recognition.

**Stage 1** 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 recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL is 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** 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 does not have objective evidence of impairment. For these assets, lifetime ECL is recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL is the ECL that result from all possible default events over the maximum contractual period during which the Company is exposed to credit risk. ECL is the weighted average credit losses, with the respective risks of a default occurring as the weights.

**Stage 3** includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognized 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, 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. Other instruments are considered as low risk and the Company uses a provision matrix in calculating the expected credit losses.

**Measurement of ECL**

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

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

**Credit-impaired financial assets**

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

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

- the significant financial difficulty of the customer or issuer;
- a breach of contracts such as a default or past due event;
- the restructuring of financing or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the customer will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for security because of financial difficulties.

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



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**4-Significant Accounting Policies (Continued)**

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

Loss allowances for ECL, for financial assets measured at amortized cost, are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

**Write-off**

Financial assets are written off only when:

- (i) there is a recommendation by the collections department and approved by management and board members as per the policy, and
- (ii) there is no reasonable expectation of recovery.

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

**Regular way contracts**

All regular way purchase and sales of financial assets are recognized and derecognized on the trade date i.e. the date on which the Company commits to purchase or sell the assets. Regular way purchase or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place.

**Financial liabilities**

**Classification of financial liabilities**

The Company designates a financial liability at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistency or where a group of financial liabilities is managed and its performance is evaluated on a fair value basis.

These amounts represent liabilities for goods and services provided to the Company before the end of the year which are unpaid. The amounts are unsecured and are usually paid within 12 months of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

**Initial measurement**

At initial recognition, the Company recognizes the financial liability at its fair value.

**Subsequent measurement**

After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the amortization process.

**Derecognition of Financial liability**

Financial liabilities are derecognized when the obligations specified in the contract is discharged, canceled or expires. A substantial change in the terms of a debt instrument is considered as an extinguishment of the original liability and the recognition of a new financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment.

**Off-setting of financial assets and financial liabilities**

Financial assets and liabilities are offset so that the net amount reported in the statement of financial position where the Company currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.



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**4- Significant Accounting Policies (Continued)**

**Effective interest method**

The effective interest method is a method of calculating the amortized cost of financial asset and liability and of allocating interest income and expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

**Property and equipment**

Property and equipment are stated at historical cost less accumulated depreciation and impairment if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The cost incurred to replace a component of an item of property and equipment is capitalized and the asset so replaced is retired from use. All other repairs and maintenance expenditures are charged to the profit and loss account during the period in which they are incurred.

Depreciation is charged using the straight-line method over its estimated useful life as mentioned below, after taking into account residual value.

Furniture & fixtures	5 Years
Office equipment	5 Year
Leasehold improvements	5 Years or lower of the lease period
Office equipment – IT	4 Years
Vehicles	3 Years

Depreciation on additions is charged from the month the assets are available for use. No depreciation is charged in the month of disposal.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains/losses on disposal of fixed assets, if any, are taken to the profit and loss account in the period in which they arise.

Assets having an indefinite useful life are stated at acquisition cost less accumulated impairment losses if any.

The assets residual values, useful lives and methods are reviewed and adjusted, if appropriate, at each reporting date.

**Intangible Assets**

Intangible assets having definite lives are stated at cost less accumulated amortization and accumulated impairment losses if any. Amortization is charged as disclosed in note 13 applying the straight-line method over the useful life of 4 years. Amortization is charged from the month in which the asset is available for use, while no amortization is charged for the month in which the asset is disposed off. The residual values and useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date.

Subsequent costs are included in the asset's carrying amounts or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Gains and losses on disposals, if any, are taken to the statement of profit or loss in the period in which they arise.



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**4- Significant Accounting Policies (Continued)**

**Impairment of non-financial assets**

At each statement of financial position date, the carrying amounts of non-financial assets are reviewed regularly to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the assets or cash-generating unit is reduced to its recoverable amount. The impairment loss is recognized as an expense in the statement of profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the assets or cash-generating unit in the prior year. The reversal of an impairment loss is recognized in the statement of profit or loss immediately.

**Trade payables**

These amounts represent liabilities for goods and services provided to the Company before the end of the financial year which are unpaid. The amounts are unsecured. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation to its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Zakat**

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia and on an accruals basis. Zakat charge for the year is charged directly to the statement of profit or loss with a corresponding liability recognized in the statement of financial position. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization, refer note 3.

**Financial facilities**

Financial facilities are initially recognized at fair value, net of transaction costs incurred. Financial facilities are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in the statement of profit or loss of the period of the financial facilities using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.



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**4- Significant Accounting Policies (Continued)**

**Financial facilities(Continued)**

Financial facilities 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 the statement of profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Financial facilities 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.

**Employees' post-employment benefits**

This represents the end of service benefits plan. Employees' post-employment benefits as required by Saudi Arabian Labor Law are required to be provided based on the employees' length of service.

The Company's net obligations in respect of defined benefit plans (post-employment benefits) ("the obligations") are calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and any unrecognized past service costs. The discount rate used is the market yield on government bonds at the reporting date that have maturity dates approximating the terms of the Company's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Company's present value of the obligation.

The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognized and any unrecognized actuarial gains/losses. Currently, there are no past service costs. There are also no unrecognized re-measurement gains and losses as the entire re-measurement gains and losses are recognized as income or expense in the statement of other comprehensive income during the year in which they arise.

**Contingent liabilities**

The Company receives legal claims through its normal cycle. Management has to make estimates and judgments about the possibility to set aside a provision to meet claims. The end of the legal claims date and the amount to be paid is uncertain. The timing and costs of legal claims depend on statutory procedures.

**Proposed dividend and transfer between reserves**

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the statement of financial position date are considered as non-adjusting events and are recorded in the financial statements in accordance with the requirements of International Accounting Standard (IAS) 10, 'Events after the Reporting Period' in the year in which they are approved / transfers are made

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**4- Significant Accounting Policies (Continued)**

**Revenue recognition**

(i) Income from Islamic financing

Interest income is calculated by applying the effective interest rate to the carrying amount of financial assets, except for:

a) Purchased or originated credit-impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.

b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

(ii) Processing fee

Processing fees and other operating income represent administration fees which include leases initiation and customer risk assessment. Processing fee income is recognized over the period of the lease using the effective rate method, which results in a constant periodic rate of return on the net investment outstanding.

(iii) Income from Securitization and agency agreements

Income from securitization and agency arrangements represents gains or losses on de-recognition of financial assets including income on amortization of net servicing assets.

Other operating income is recorded as when incurred.

**Government grants**

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 interest 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. Government grant is recognised in interim statement of income on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants is intended to compensate.

**5- New amended standards and interpretations that are not yet effective:**

New accounting standards and amendments to existing accounting standards effective from January 1, 2020 and onwards do not have any significant effect on the Company's financial statements.

**6- Cash and Cash Equivalents**

	2020	2019
Cash at banks	<u>105,105,843</u>	<u>36,613,543</u>

The Company does not earn profits on current accounts with banks and financial institutions in accordance with Shari'a rules and principles.

**7- Other Receivables and Prepayments**

	2020	2019
Receivables from sold portfolio (note 9.6)	502,305,155	-
Advance payments to banks against sold portfolio	300,214,625	167,144,304
Claims receivable	9,043,256	11,018,770
Advance to suppliers – unsecured	2,294,061	1,062,613
Advances to staff	903,712	2,186,321
Prepaid rent	399,963	388,654
Deferred insurance cost	-	14,821,666
Other prepayments	37,019,662	31,669,107
	<u>852,180,434</u>	<u>228,291,435</u>



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**8- Related Parties Balances and Transactions**

	Nature of relationship	2020	2019
<b>A- Due from related parties</b>			
Abdullatif Alissa Automotive Company	Affiliate	94,380,924	-
Best Trading Company	Affiliate	629,747	581,729
National Automotive Trading Company	Affiliate	264,651	254,476
Alissa Universal Motor Company	Affiliate	98,569	-
Auto Express Company – GPCO	Affiliate	-	1,920,357
Abdullatif Alissa Group Holding Company	Parent Company	-	-
Alissa Investment Company	Affiliate	-	2,594
		<b>95,373,891</b>	<b>2,759,156</b>
<b>B- Due to related parties</b>			
Aqar and Memar Real Estate Company	Affiliate	320,665	308,337
General Automotive Company (GACO)	Affiliate	-	96,643,812
Abdullatif Alissa Automotive Company	Affiliate	-	42,893,650
Alissa Universal Motor Company	Affiliate	-	67,789
Abdullatif Alissa Group Holding Company	Parent Company	-	1,524,055
		<b>320,665</b>	<b>141,437,643</b>
<b>C-Key management personnel</b>			
	Advance to key management personnel	344,063	163,318
	Directors' meeting attendance fee payable	845,675	875,333

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**8- Related Parties Balances and Transactions (continued)**

<u>Transactions during the year</u>			<u>For the year ended</u>	
<u>Name of Related Party</u>	<u>Nature of relationship</u>	<u>Nature of transaction</u>	<u>2020</u>	<u>2019</u>
Abdullatif Alissa Group Holding Company	Parent Company	Sale of Islamic financing receivables	902,823,297	-
		IT cost allocation	357,195	4,848,612
		Payable to Group for sold portfolio collections	23,161,587	-
		Disocunt on sale of Islamic financing receivables	(366,823,297)	-
		Deferment of future receipts	(33,694,845)	-
Abdullatif Alissa Automotive Company	Affiliate	Other settlements	(1,292,758)	(10,650,513)
		Expenses incurred by Affiliate on behalf of the Company	(588,492)	-
		Asset purchases from Affiliate for Islamic financing/Rescheduling adjustments	125,295,980	8,975,954
		Expenses/ Income incurred by Affiliate on behalf of the Company	11,978,593	21,319,792
		Finance cost charged	-	1,784,273
Alissa Universal Motor Company	Affiliate	Finance cost paid	-	(1,784,273)
		Asset purchases from Affiliate for Islamic financing/Rescheduling adjustments	166,358	11,527,263
		Payments made to affiliate	-	(18,916,755)
		Finance cost paid	-	(1,094,235)
		Other settlements	-	(15,882,209)
Alissa Universal Motor Company	Affiliate	Expenses incurred by affiliate on behalf of the Company	-	4,246,944
		Finance cost charged	-	1,094,235



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**8- Related Parties Balances and Transactions (continued)**

<u>Transactions during the year</u>			<b>For the year ended</b>	
<b>Name of Related Party</b>	<b>Nature of relationship</b>	<b>Nature of transaction</b>	<b>2020</b>	<b>2019</b>
General Automotive Company	Affiliate	Asset purchases from Affiliate for Islamic financing	-	149,646,844
		Payments made to Affiliate	(92,045,264)	(22,580,925)
		Finance cost charged	-	8,123,642
		Finance cost paid	4,079,073	(8,123,642)
		Other settlements	-	(120,696,256)
		Expenses incurred by the Company on behalf of the Affiliate	(6,674,161)	(3,000,292)
Key management personnel	Affiliate	Salaries and other short-term employee benefits	7,170,109	5,353,611
Key management personnel	Affiliate	Directors' meeting attendance fee	3,608,641	1,316,167

6.1-\*Finance cost has been charged by the group company at an average rate of 5% on the due to balances.

**6.2-Net Investment in Islamic Financings**

<b>Related Parties</b>	<b>Nature of Relationship</b>	<b>Product type</b>	<b>Profit rate</b>	<b>Tenure</b>	<b>2020</b>	<b>2019</b>
Key management	Executive Staff	Ijara	4% - 5%	49 months	-	941,279
Key management employees of affiliated companies	Affiliate	Ijara	5%	49 - 60 months	-	56,074
Tanya Bottled Drinking Water Ltd Co	Affiliate	Murabaha	8%	48 months	-	296,101
		Murabaha	6%	36 months	-	73,714
		Ijara	6%	22-36 months	-	396,615
					-	1,763,783

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**9- Net Investment In Islamic Financings (continued)**

	2020	2019
Gross investment in Islamic financings	2,085,559,313	3,531,199,909
Unearned Islamic financing income	(273,672,698)	(448,003,142)
Unearned origination fee	(4,964,689)	(9,544,796)
<b>Note 9.1</b>	<b>1,806,921,926</b>	<b>3,073,651,971</b>
Less: Provision for impairment of Islamic financing	(217,039,003)	(528,185,854)
	<b>1,589,882,924</b>	<b>2,545,466,117</b>
<b>9.1-Classification of product</b>	<b>2020</b>	<b>2019</b>
Financial asset carried at amortized cost		
Murabaha	775,111,457	1,269,399,216
Tawaruq	238,956,033	184,404,955
Investment classified as a finance lease		
Ijara	792,854,436	1,619,847,801
	<b>1,806,921,926</b>	<b>3,073,651,971</b>



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**9- Net Investment In Islamic Financings (continued)**

9.2-Details of net investment in Islamic financings:

	<u>Murabaha</u>		<u>Tawarruq</u>		<u>Ijara</u>		<u>Total</u>	
	2020	2019	2020	2019	2020	2019	2020	2019
Gross investment in Islamic financing	845,258,888	1,425,428,517	305,039,152	231,281,463	935,261,273	1,874,489,929	2,085,559,313	3,531,199,909
Unearned Islamic financing income	(68,143,350)	(152,176,383)	(65,757,949)	(46,251,357)	(139,771,399)	(249,575,402)	(273,672,698)	(448,003,142)
	777,115,538	1,273,252,134	239,281,203	185,030,106	795,489,874	1,624,914,527	1,811,886,615	3,083,196,767
Unearned origination fees	(2,004,081)	(3,852,918)	(325,170)	(625,152)	(2,635,438)	(5,066,726)	(4,964,689)	(9,544,796)
	775,111,457	1,269,399,216	238,956,033	184,404,954	792,854,436	1,619,847,801	1,806,921,926	3,073,651,971
							1,806,921,926	3,073,651,971
							-	-
							(217,039,003)	(528,185,854)
Impairment on Islamic financing							1,589,882,924	2,545,466,117
Net investment in Islamic financing							917,084,902	793,362,039
Current portion							672,798,022	1,752,104,078
Non-current portion								

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**9- Net Investment In Islamic Financings (continued)**

9.3- The maturity of the investment classified as an Ijara is as follows:

	2020	2019
Year 1	472,710,992	534,300,852
Year 2	211,741,329	462,681,551
Year 3	152,007,527	293,712,195
Year 4	85,359,913	308,635,268
Year 5 onwards	13,441,512	275,160,063
<b>Gross investment in Ijara</b>	<b>935,261,273</b>	<b>1,874,489,929</b>
Less: unearned income	(139,771,399)	(249,575,402)
<b>Net investment in Ijara</b>	<b>795,489,874</b>	<b>1,624,914,527</b>

9.4- The movement in the provision for impairment of Islamic financing during the period is as follows:

	2020	2019
Opening balance	528,185,854	303,973,609
Charged during the year (Note 26)	141,363,506	224,212,245
Provision on sold Islamic financing receivables	(222,016,952)	-
Write-off during the year	(230,493,405)	-
	<b>217,039,003</b>	<b>528,185,854</b>

9.5- Portfolio provision analysis for gross investment in Islamic financing:

December 30, 2020	Gross investment in Islamic financing	Provision for impairment	Expected loss rates
Not yet due	710,874,466	596,543	0% - 0.10%
1-90 days	502,773,182	30,364,342	0% - 25%
91-180 days	95,370,672	16,916,426	1% - 37%
181-365 days	156,804,255	28,904,337	2% - 38%
Above 365 days	619,736,738	140,257,353	11% - 38%
	<b>2,085,559,313</b>	<b>217,039,003</b>	

  

December 31, 2019	Gross investment in Islamic financing	Provision for impairment	Expected loss rates
Not yet due	831,450,923	1,271,944	0.0% - 0.65%
1-90 days	1,026,352,283	83,673,189	0.46% - 41.32%
91-180 days	184,706,844	28,212,041	0.79% - 52.48%
181-365 days	235,096,806	47,419,840	1.45% - 58.48%
Above 365 days	1,253,593,053	367,608,840	12.20% - 52.95%
	<b>3,531,199,909</b>	<b>528,185,854</b>	

9.6- During the year ended December 30, 2020, the Company has sold Islamic financing receivables with no recourse to Abdullatif Alissa Group Holding Company (the "Parent Company") amounting to the net of SR 536 million (gross lease sold 902.8M less provision of impairment against the sold portfolio of 366.8M). As per the agreement, the Parent Company is required to settle SR 536 million over six monthly instalments starting from March, 2021 over a period of three years. The Company has incurred a loss from the deferments of collections (installments) of SR. 33.69 million.



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**9- Net Investment In Islamic Financings (continued)**

- 9.7- Investment in Islamic financing includes an amount of SR 384,447 (2019: SR 1,411,608) due from related parties.
- 9.8- Investment in Islamic financing includes an amount of SR 52,887. (2019: 352,175) due from key management employees of the affiliated companies.
- 9.9- The Company in the ordinary course of its business holds collateral in respect of the Islamic financing (being the title of assets leased out) to mitigate the credit risk associated with them. These collaterals are not readily convertible into cash and are intended to be repossessed and disposed of in case the customer defaults. As at 31 December 2020, Ijara receivables include the Company's repossessed vehicle inventory for the contracts having outstanding receivables amounting to SR 63,630,255 (31 December 2019: SR 43,226,090).
- 9.10- The title of the assets sold under finance leases agreements is held in the name of the Company. Further, all investments in finance leases are secured through personal guarantees.
- 9.11- The Company has entered into securitization and agency agreements with certain banks whereby the Company has sold to the banks certain investments in finance leases, with partial recourse to the extent of margin deposits with the banks under the securitization and agency agreements. The total value of the sold investments in Islamic finance receivables during the year has been netted off against amounts received from the banks under the securitization and agency agreements to buy the Islamic finance receivables from the Company. Due to the partial recourse available to the banks, the Company recognizes a liability against margin deposits maintained with the banks. The Company is appointed by the banks to service the lease receivables purchased by them, and the corresponding net servicing asset and liability are disclosed on the statement of financial position.

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**10- Margin Deposits – Restricted**

	<b>2020</b>	<b>2019</b>
Gross Margin deposits with banks	<b>187,715,578</b>	246,774,080
Less: impairment provision in respect of margin deposits	<b>(43,714,327)</b>	(65,012,007)
Less: Provision in respect of present value of margin deposit	<b>(10,899,104)</b>	(17,891,745)
	<b>133,102,147</b>	163,870,328
Current portion	<b>66,766,629</b>	83,015,763
Non-current portion	<b>66,335,518</b>	80,854,565

The Company has placed these funds in restricted bank accounts against Islamic finance receivables sold to the banks as required under certain securitization and agency agreements. This amount represents the maximum liability (against defaulted receivables, if any) of the Company according to the relevant securitization and agency agreements.

**10.1-The movement in expected defaults in respect of margin deposits:**

	<b>2020</b>	<b>2019</b>
Opening balance	<b>65,012,007</b>	128,198,857
Reversed during the year	<b>(21,297,680)</b>	(63,230,787)
Written off during the year	-	43,937
	<b>43,714,327</b>	65,012,007

**10.2-The movement in provision in respect of present value margin deposits:**

	<b>2020</b>	<b>2019</b>
Balance at beginning of the year	<b>17,891,745</b>	25,080,946
Reversed during the year	<b>(6,992,641)</b>	(7,189,201)
	<b>10,899,104</b>	17,891,745

**11- Investment Carried At FVOCI**

During 2017, in accordance with instructions issued by SAMA, the Company has made an investment in Saudi Financial Lease Contract Registry Company amounting to SR 892,850. As at 31 December 2020 the Company holds 89,285 numbers of shares (31 December 2019: 89,285).

The investments in equity instruments are not held for trading. Instead, they are held for the medium to long-term purposes. Accordingly, the Company has elected to designate these investments in equity instruments as at FVOCI.

Due to the unavailability of the information to determine the fair value of the Company, the cost of the investment is considered to be the best estimate of fair value.



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**12- Property and Equipment**

<u>Cost</u>	<u>Furniture &amp; Fixture</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Office Equipment – IT</u>	<u>Vehicles</u>	<u>Total</u>
Balance as of December 31, 2019	7,936,436	7,030,138	9,908,692	10,977,350	198,690	36,051,306
Adjustments	(18,965)	58,393	(39,405)	(23)	-	-
Additions	10,445	67,211	120,682	230,848	-	429,186
Balance as of December 31, 2020	<b>7,946,881</b>	<b>7,097,349</b>	<b>10,029,374</b>	<b>11,208,198</b>	<b>198,690</b>	<b>36,480,492</b>
<b><u>Accumulated Depreciation</u></b>						
Balance as of December 31, 2019	(7,221,550)	(6,311,943)	(7,432,422)	(4,996,601)	(34,010)	(25,996,526)
Charge for the year	(359,362)	(337,957)	(2,012,185)	(1,636,543)	(81,624)	(4,427,671)
Adjustments	19,735	(56,512)	36,777	2	-	2
Balance as of December 31, 2020	<b>(7,561,177)</b>	<b>(6,706,412)</b>	<b>(9,407,830)</b>	<b>(6,633,142)</b>	<b>(115,634)</b>	<b>(30,424,195)</b>
<b>Book value:</b>						
As of December 31, 2020	<b>385,704</b>	<b>390,937</b>	<b>621,544</b>	<b>4,575,056</b>	<b>83,056</b>	<b>6,056,297</b>
As of December 31, 2019	714,886	718,195	2,476,270	5,980,749	164,680	10,054,780

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**13- Intangible Assets**

	<u>Computer Software</u>
<b><u>Cost</u></b>	
Balance as of December 31, 2019	11,725,727
Additions	<u>244,317</u>
Balance as of December 31, 2020	<u>11,970,044</u>
<b><u>Accumulated amortization</u></b>	
Balance as of December 31, 2019	(8,276,281)
Charge for the year	<u>(1,737,920)</u>
Balance as of December 31, 2020	<u>(10,014,201)</u>
<b>As of December 31, 2020</b>	<u><b>1,955,843</b></u>
<b>As of December 31, 2019</b>	<u><b>3,449,446</b></u>

**14- Right-of-use assets**

	<u>Building</u>
<b><u>Cost</u></b>	
Balance as at 1 January 2020	19,445,108
Additions during the year	<u>612,885</u>
Balance as at 31 December 2020	<u>20,057,993</u>
<b><u>Accumulated Depreciation</u></b>	
Balance as at 1 January 2020	(6,322,042)
Depreciation charge for the year	<u>(6,046,062)</u>
Balance as at 31 December 2020	<u>(12,368,104)</u>
<b>Net Book Value as at 31 December 2020</b>	<u><b>7,689,889</b></u>
<b>Net Book Value as at 31 December 2019</b>	<u><b>13,123,066</b></u>
 <b><u>Lease Liabilities</u></b>	
Balance as at 1 January 2020	8,874,853
Additions during the year	613,386
Charge for the year	467,123
Less: lease payments during the year	<u>(5,056,780)</u>
Balance as at 31 December 2020	<u><b>4,898,582</b></u>



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**14- Right-of-use assets (continued)**

The liabilities and deferred financing cost resulting from these contracts is as follows:

<b>2020</b>			
	<b>Current portion</b>	<b>Non-current portion</b>	<b>Total</b>
Lease contracts obligations	2,910,780	2,369,281	5,280,061
Deferred financing cost	(220,135)	(161,344)	(381,479)
	<b>2,690,645</b>	<b>2,207,937</b>	<b>4,898,582</b>

  

<b>2019</b>			
	<b>Current portion</b>	<b>Non-current portion</b>	<b>Total</b>
Lease contracts obligations	5,190,780	4,529,560	9,720,340
Deferred financing cost	(480,643)	(364,844)	(845,487)
	<b>4,710,137</b>	<b>4,164,716</b>	<b>8,874,853</b>

- The minimum future lease payments as at the date of the statement of financial position as a whole are as follows:

<b>2020</b>	
<b>Year</b>	<b>Minimum lease payments</b>
2021	2,207,645
2022	996,964
2023	393,092
2024	1,682,360
	<b>5,280,061</b>

**15- Share Capital**

The Company's subscribed and paid-up share capital of SR. 500,000,000 is divided into 50,000,000 equity shares of SR. 10 each fully subscribed and paid, and distributed among shareholders as follows:

	<b>2020</b>			<b>2019</b>
	<b>Holding %</b>	<b>No. of Shares</b>	<b>Amount</b>	<b>Amount</b>
Abdullatif Alissa Group Holding Company ("Parent Company")	<b>99.80%</b>	<b>49,900,000</b>	<b>499,000,000</b>	499,000,000
Gulf Development Company	<b>0.20%</b>	<b>100,000</b>	<b>1,000,000</b>	1,000,000
<b>Total</b>	<b>100%</b>	<b>50,000,000</b>	<b>500,000,000</b>	500,000,000

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**16- Statutory Reserve**

As required by the Company's by-laws, 10% of the net income for the year, has been transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution.

**17- Trade Payables**

These represent non-profit-bearing payables against the purchase of assets leased by the Company on a conventional basis.

**18- Other Payables and Accruals**

	2020	2019
Collections against sold portfolio payable to bank	111,041,729	58,489,783
Payable against sold portfolio (note 9.6)	23,161,587	-
Insurance recoveries payable	13,664,107	11,975,077
Accrued salaries, wages and benefits	6,267,759	3,737,863
Provision against staff leaves	4,748,516	8,441,948
Unclaimed deposits	3,850,043	5,799,529
Director's meeting attendance fee payable	845,675	875,333
Other payables	127,823,284	32,769,143
	<u>291,402,700</u>	<u>122,088,676</u>

**19- Net Servicing Asset/Liability For Securitized Receivables**

Under the securitization and agency agreements, the Company has been appointed by the banks to service the purchased receivables. Where the Company is appointed to service the derecognized financial assets for a 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 specify 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. Assumptions and their sensitivity involved in the calculation of net servicing assets/liability.

**Discount rates**

Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration the expectation of an investor's return and the individual risks of the underlying assets. Such a discount rate, which ranges from 4.69% to 6.21% (2019: 4.69% to 6.21%), is adjusted for defaults and prepayment rates based on publicly available market data.

**Servicing costs**

The management assesses the cost of servicing including salaries and other direct costs. The annual change in the servicing cost represents the increment to the servicing cost as a result of inflation. Also, the calculation of discount rate and servicing cost is sensitive to the expected default rate and prepayment risk, which are expected to be minimal.

Variations in one or a combination of these assumptions could materially affect the estimated values of net servicing assets. Evaluation of impairment is performed every quarter taking into consideration historical trends, past experience and forecasts of defaults and prepayments.



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**20- Provision for Zakat**

The movement in the provision for zakat is as follows:

	2020	2019
Balance at the beginning of the year	29,828,363	119,814,360
Provided during the year	12,071,826	3,226,987
Zakat reversal – prior period	-	(41,831,652)
Payment during the year	(9,977,604)	(51,381,332)
	<u>31,922,585</u>	<u>29,828,363</u>

**Status of assessments**

The Zakat returns for the years ended 2014 up to 2017 have been filed and demand has been raised by the General Authority of Zakat and Tax (“GAZT”) under the assessment of SR. 41,564,652 for the years 2014 up to 2017. During 2019, the Company paid SR 14,963,274 to GAZT and the remaining amount is payable in four years equal instalments from 1 December 2020.

The Company has filed the Zakat return with GAZT for the year 2018 and 2019. On March 28, 2020, the Company has obtained a certificate from the GAZT valid until 18 Ramadan 1442H corresponding to 30 April 2021.

**21- Borrowings**

	2020	2019
Short-term borrowings	418,696,985	66,620,500
Long-term borrowings-21-1	846,240,817	1,248,980,803
Finance cost payable	18,972,372	4,051,073
Overdrafts	6,001,705	-
	<u>1,289,911,879</u>	<u>1,319,652,376</u>

**21.1- Maturity profile**

	2020	2019
<b>Current portion-</b> Long-term borrowings	403,490,727	761,751,515
<b>Non-current portion-</b> Long-term borrowings	442,750,090	487,229,288
	<u>846,240,817</u>	<u>1,248,980,803</u>

**21.2- Unsecured financial facilities at amortized cost**

	2020	2019
Zero-interest loan	<u>143,176,011</u>	<u>79,166,676</u>

**21.3- Secured financial facilities at amortized cost**

	2020	2019
Murabaha	628,950,804	1,046,497,462
Tawarruq	74,114,003	123,316,665
	<u>703,064,806</u>	<u>1,169,814,127</u>

21.4- The Company has obtained bank financial facilities from local Islamic banks for the purpose of financing working capital needs. These bank facilities bear finance costs at market prevailing rates.

21.3- The facility agreements include covenants which, among other things, require the Company to maintain certain financial ratios.

21.4- These facilities are collateralized against the guarantees of Abdullatif Alissa Group Holding Company.

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**22- Employees' Post-Employment Benefits**

	2020	2019
Balance at the beginning of the year	21,414,000	28,374,169
Current service cost	3,307,000	3,821,000
Paid during the year	(2,879,586)	(2,144,000)
Actuarial gain from re-measuring Employees' benefit obligation	(4,087,414)	(8,637,169)
Balance at the ending of the year	17,754,000	21,414,000

**Signification actuarial assumptions:**

	2020	2019
Discount rate	2.90%	2.70%
Salary increase rate	2.00%	2.00%
Employee turnover (withdrawal) rates	1%-25%	1%-25%

**23- Income From Islamic Financing, net**

	2020	2019
Income from Murabaha	58,378,227	170,331,322
Income from Ijara	61,547,308	82,956,355
Income from Tawarruq	40,403,932	21,091,052
Net income from securitized receivables	37,076,326	71,932,436
	197,405,793	346,311,165

23.1- Income from Ijara is net of takaful expense amounting to SR 66,008,412 (2019: SR 64,812,004).

23.2- Income from securitized receivables is net of takaful expense amounting to SR 25,572,441 (2019: SR 25,108,938).

**24- Other Income**

	2020	2019
Post execution and other service charges	22,961,925	24,182,976
Origination fee	3,319,971	9,547,923
	26,281,896	33,730,899

**25- Finance Cost**

	2020	2019
Financing facilities;		
- Murabaha	49,411,442	57,554,210
- Tawarruq	5,822,521	6,782,045
- Administrative fee amortization on zero interest rate	4,567,887	4,353,929
Finance cost charged by related parties	4,512,403	10,758,124
Bank charges	10,721,755	18,270,878
	75,036,008	97,719,186



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**26- Impairment on Islamic Financing, net**

	2020	2019
Provision for impairment losses on net Investment in Islamic Financing	141,363,506	224,212,245
Gain on sale of net Investment in Islamic Financing	(87,215,668)	-
Written off financing receivables recovered/reinstated	(4,811,591)	(28,544,592)
	<u>49,336,247</u>	<u>195,667,653</u>

**27- Other Expenses**

	2020	2019
Legal, professional and consultancy fees	19,866,714	5,936,366
IT cost allocation	4,641,990	4,848,612
Repair and maintenance	4,327,402	4,031,190
Outsourcing - security & others	3,899,856	4,648,192
Telephone and postage	3,116,198	3,096,346
Rent expense	1,223,190	2,166,545
Advertising expenses	608,251	1,784,706
Sales commission	668,407	2,005,264
Stationery and printing	487,501	819,364
Promotion expenses	57,554	25,426
Others	10,053,129	8,241,090
	<u>48,950,192</u>	<u>37,603,101</u>

**28- Depreciation and Amortization**

	2020	2019
Depreciation on right-of-use assets	6,046,062	6,322,042
Depreciation on property and equipment	4,427,671	3,218,910
Amortization of intangible assets	1,737,920	1,970,471
	<u>12,211,653</u>	<u>11,511,423</u>

**29- Securitization And Agency Agreements**

In accordance with the terms of certain securitization and agency agreements, the Company has securitized financing receivables with the banks.

The Company continues to manage these off statement of financial position Islamic financing receivables as a servicer in accordance with the securitization and agency agreements entered into with the banks. The Company is continuing to manage these securitized receivables for an agreed fee which is disclosed as income. These receivables are secured by promissory notes from the customers.

The outstanding position of such off statement of financial position Islamic financing receivables is as follows:

	2020	2019
Balance of outstanding receivables relating to securitization and agency agreements	<u>803,355,761</u>	<u>1,489,519,147</u>

### **30- Financial Risk Management**

The Company's activities are exposed to a variety of financial risks which mainly include market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial statements. The Company uses derivatives financial instruments to reduce certain risk exposures. The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

#### **Risk management structure**

##### **Board of Directors**

The Board of Directors is responsible for establishing the Company's policies, including risk management framework, and to review the performance of the Company to ensure compliance with these policies.

##### **Credit and risk management committee**

The credit and risk management committee are appointed by the Board of Directors. The credit and risk management committee assists the Board in reviewing overall risks which the Company might face, evaluate and review operational and non-operational risks and decide on mitigating factors related therewith.

##### **Audit committee**

The audit committee is appointed by the Board of Directors. The audit committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof and the soundness of the internal controls of the Company.

##### **Market risk**

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in the credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Market risk comprises three types of risk: currency risk, profit rate risk and other price risks.

##### **Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals during the year. Accordingly, the Company is not exposed to any significant currency risk.

##### **Profit rate risk**

Profit rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market profit rates. The Company is not exposed to long term obligations with floating profit rates therefore, the Company is not exposed to any significant profit rate risk.

##### **Price risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Company does not have any financial instruments which are subject to other price risks.



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**30- Financial Risk Management (continued)**

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The risk is generally limited to principal amounts and accrued profit thereon if any. The Company has established procedures to manage credit exposure including credit approvals, credit limits, collateral and guarantee requirements. The Company also manages risk through a credit department that evaluates customers' creditworthiness and obtains adequate securities where applicable.

All investing transactions are settled/paid for upon delivery. The Company's policy is to enter into a financial instrument contract by following internal guidelines such as approving counterparties and approving credit

**Credit quality analysis**

The Company monitors the credit quality of the Islamic financing receivables through diversification of activities to avoid undue concentration of risks with individuals or groups. For such purpose, the Company has established exposure limits for single lessees and business sectors. The Company has an effective rental monitoring system which allows it to evaluate customers' creditworthiness and identify potential problem accounts.

An allowance for potential lease losses is maintained at a level which, in the judgment of management, is adequate to provide for potential losses on lease installment that can be reasonably anticipated. The credit quality of receivables can be assessed with reference to their historical performance with no or some defaults in recent history. However, the rating for the quality of the Company's investments cannot be determined because the customer base of the Company consist of small business for which such data is not readily available. The concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location. Ten largest customers account for 15.81% (2019: 11.46%) of the outstanding balance of investment in Islamic financing as of 31 December 2020 and 2019. Out of the total assets of SR 1,788 million (2019: SR 2,972 million).

The maximum exposure to credit risk at the reporting date is:

	<b>Classification</b>	<b>As at 31 December</b>	
		<b>2020</b>	<b>2019</b>
Net Investment in Islamic Financing	Amortized cost	<b>1,589,882,924</b>	2,545,466,117
Margin Deposit – Restricted	Amortized cost	<b>133,102,147</b>	163,870,328
Other receivables	Amortized cost	<b>852,180,436</b>	228,291,435
Cash at bank	Amortized cost	<b>105,105,843</b>	36,613,543
Due from related parties	Amortized cost	<b>95,373,891</b>	2,759,156
		<b><u>2,775,645,241</u></b>	<b><u>2,977,000,579</u></b>

**Impairment**

Cash at banks are placed with banks with sound credit ratings which are given in. Cash at bank, advances to employees, restricted deposits with bank and other receivables are considered to have low credit risk; therefore, 12 months ECL model was used for impairment assessment. Based on management impairment assessment, there is no provision required in respect of these balances. The Company applies the general impairment ECL model to measure the credit allowances against net investment in Islamic financing which is explained below.



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**30- Financial Risk Management (continued)**

**Measurement of ECL**

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

- (i) probability of default (PD);
- (ii) loss given default (LGD);
- (iii) exposure at default (EAD).

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 compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large non-retail counterparties. If a counterparty or exposure migrates between rating 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 legal standing against the defaulting counterparties. The LGD models also consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the lease receivable.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current lease receivables to the customer and potential changes to the current amount allowed under the lease contract including amortization. The EAD of a lease receivable is its carrying amount before allowance for impairment.

As described above, and subject to using a maximum of a 12-month PD for lease receivables for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period 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 installment.

Where modeling of a parameter is carried out on a collective basis, the financial instruments are ranked based on shared risk characteristics that include:

- the business sector of the customers;
- collateral type;
- date of initial recognition;
- remaining term to maturity;

**Categorization**

The Company categorizes its investment in Islamic financing into Stage 1, Stage 2, Stage 3, as described below:

Stage 1: When lease receivables are first recognized, the Company recognizes an allowance based on 12 months ECLs. Stage 1 receivables also include facilities where the credit risk has improved and the receivable 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 facilities, where the credit risk has improved and the receivable has been reclassified from Stage 3.

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

POCI: Purchased or originated credit-impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.



**30- Financial Risk Management (continued)**

**Amounts arising from ECL – Significant increase in credit risk**

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for 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).

**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 if, based on the Company's quantitative modeling, the remaining lifetime PD is determined to have increased significantly.

Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that 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 customer.

**Amounts arising from ECL – Significant increase in credit risk**

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 the 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).

**Generating the term structure of PD**

The Company employs various techniques to develop business sector PD models. In this process, the dependent variable is the default rate and the independent variables are the macro variables. The macro variable inflation rate was selected based on business intuition and statistical analysis performed.

Based on advice from the Company credit and risk committee and consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of macro-economic variable as well as a representative range of other possible forecast scenarios. The Company then uses these forecasts to adjust its estimates of PDs.



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**30- Financial Risk Management (continued)**

**Definition of Default**

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

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

In assessing whether a customer is in default, the Company also considers indicators that are:

- qualitative - e.g. breaches of lease contract;
- quantitative- e.g. overdue status and non-payment; and
- based on data developed internally.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

**Incorporation of forward-looking information**

The Company incorporates forward-looking information into both its assessment of whether the credit risk of a receivable has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Company's credit risk committee and consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by global monetary authorities and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The management has used inflation rates as the key macro-economic variable as of 31 December 2018 and January 1, 2018 to develop the base case scenario which the management estimates are the best estimate of the forecasted macro-economic variable for determination of the PD. Predicted relationships between the key indicators and default and loss rates on various business sectors of the lease receivable have been developed based on analyzing historical data over the past 10 to 15 years.

**Modified financial assets**

The contractual terms of a lease receivable are mainly modified at the request of the customer. An existing lease receivable whose terms have been modified may be derecognized and the renegotiated lease receivable recognized as a new investment in Islamic financing at fair value in accordance with the accounting policy set out in Note 3.

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

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

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

The revised terms usually include extending the maturity and changing the timing of interest payments. The Company's credit and risk committee regularly review reports on forbearance activities.



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**30- Financial Risk Management (continued)**

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the customer's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

**Net investment in Islamic financing**

The investment in Islamic financing generally expose to significant credit risk. Therefore, the Company has established a number of procedures to manage credit exposure including evaluation of lessees' creditworthiness, formal credit approvals, assigning credit limits, obtaining collateral and personal guarantees.

The Company also follows a credit classification mechanism, primarily driven by days delinquency as a tool to manage the quality of credit risk of the Islamic financing portfolio.

The aging of net investment in Islamic financings contracts is as under:

	<b>2020</b>	<b>2019</b>
Neither past nor due	<b>710,874,466</b>	831,366,159
Past due 1-30 days	<b>309,797,586</b>	541,486,955
Past due 31-60 days	<b>138,735,282</b>	484,950,092
Past due 61-90 days	<b>54,240,314</b>	184,706,844
Past due 91-180 days	<b>47,515,471</b>	235,096,806
Past due over 180 days	<b>824,396,194</b>	1,253,593,053
	<b>2,085,559,313</b>	3,531,199,909
Less: Unearned / deferred Islamic financing income	<b>(273,672,698)</b>	(448,003,142)
Unearned origination fee	<b>(4,964,689)</b>	(9,544,796)
	<b>1,806,921,926</b>	3,073,651,971
Less: Impairment for Islamic financing	<b>(217,039,003)</b>	(528,185,854)
Net of Impairment	<b>1,589,882,923</b>	2,545,466,117
Total portfolio coverage ratio	<b>12.01%</b>	17.18%

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**30- Financial Risk Management (continued)**

Net investment in Islamic financing and the corresponding ECL allowance as at 31 December 2020 classified into stages is as follows:

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount before ECL</b>	<b>1,020,672,052</b>	<b>192,975,596</b>	<b>871,911,665</b>	<b>2,085,559,313</b>
<b>ECL</b>	<b>12,726,528</b>	<b>18,234,357</b>	<b>186,078,118</b>	<b>217,039,003</b>

  

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount before ECL</b>	<b>1,372,855,963</b>	<b>484,950,092</b>	<b>1,673,396,703</b>	<b>3,531,202,758</b>
<b>ECL</b>	<b>40,119,709</b>	<b>44,825,428</b>	<b>443,240,719</b>	<b>528,185,854</b>

The portfolio that is neither past due nor impaired has a satisfactory history of repayment, where applicable. As at the statement of financial position date, the Company has adequate collaterals to cover the overall credit risk exposure after making an impairment provision.

Management classifies the investment in Islamic financing that are either not yet due or otherwise past due but for 90 days or less as “performing” while all receivables that are past due for more than 90 days are classified as “non-performing”. Below is the breakdown of performing and non-performing gross Islamic financing:

	2020	2019
Performing	1,156,799,916	1,853,207,321
Non-performing	928,759,397	1,677,995,437
	<b>2,085,559,313</b>	<b>3,531,202,758</b>

The movement in provision for impairment for Islamic financing receivables is as follows:

	Stage 1	Stage 2	Stage 3	Total
<b>January 1, 2020</b>	<b>40,119,708</b>	<b>44,825,426</b>	<b>443,240,721</b>	<b>528,185,855</b>
Transfer from stage 1	(10,468,019)	5,788,671	4,679,348	-
Transfer from stage 2	14,482,791	(27,930,688)	13,447,898	-
Transfer from stage 3	1,443,043	2,868,409	(4,311,453)	-
Financial assets – settled	(6,682,023)	(9,047,137)	(276,702,350)	(292,431,510)
Financial assets – originated				
Net re-measurement of loss allowance	(26,168,972)	1,729,676	5,723,954	(18,715,342)
Write-off during the year	-	-	-	-
<b>December 31, 2020</b>	<b>12,726,528</b>	<b>18,234,357</b>	<b>186,078,118</b>	<b>217,039,003</b>



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**30- Financial Risk Management (continued)**

**Concentration risk**

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company manages its credit risk exposure through diversification of Islamic financing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses.

The Company manages its credit risk exposure through diversification of Islamic financing activities to ensure that there is no undue concentration of risks with groups of customers in specific locations or businesses.

**Collateral held as security and other credit enhancements**

The credit risks on gross amounts due in relation to the investment in Islamic financing is mitigated by holding collaterals which are leased assets and real-estate. Further, the gross carrying amount of investment in Islamic Financing amounts against which collateral has been obtained amounts to SR 952 million and the fair value of collateral amounting to 793 SR million as at 31 December 2020. The Company is not permitted to sell or repledge the collateral in the absence of default by the lessee. There have not been any significant changes in the quality of the collateral.

**Bank credit rating**

The credit quality of the Company's bank balances is assessed with reference to external credit ratings which, in all cases, are above investment-grade rating. Other receivables are neither significant nor exposed to significant credit risk. No ECL was taken for restricted cash deposits and bank balances as the impact of the ECL was not material. The bank balances along with credit ratings are tabulated below:

	2020	2019
<b>Cash at bank:</b>		
A-	60,131,876	30,459,442
BBB+	41,973,967	6,085,697
BBB	-	68,404
	<b>102,105,843</b>	<b>36,613,543</b>
<b>Margin Deposit – Restricted:</b>		
A-	129,456,950	238,850,027
BBB+	35,132,361	19,524,052
	<b>164,589,311</b>	<b>258,374,079</b>
<b>Advance payments to banks against sold portfolio (Note 7)</b>		
A-	133,316,324	140,629,217
BBB+	62,672,577	26,515,087
	<b>195,988,901</b>	<b>167,144,304</b>
<b>Grand total</b>	<b>462,684,055</b>	<b>450,531,926</b>

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**30- Financial Risk Management (continued)**

**Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company will be required to pay its liabilities earlier than expected or will face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always 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.

The Company's financial liabilities primarily consist of trade payables, due to related parties, financial facilities and other payables and accruals. Trade payables, due to related parties and other payables and accruals aggregating SR million 79.5 (2019: SR 6.9 million) have a short-term maturity. The Company expects to have adequate liquid funds to settle its current liabilities through close monitoring due to both current assets and current liabilities.

Following is the contractual maturities of undiscounted cash flows of financial liabilities as at 31 December 2020 and 2019:

Contractual maturities of financial liabilities	2020				
	Carrying amount	Contractual cash flows	Up to three months	More than three months and up to one year	More than one year
<b>Non-derivative</b>					
Trade payables	24,655,067	24,655,067	24,655,067	-	-
Other payables and accruals	291,402,700	291,402,700	81,797,063	132,894,049	76,711,588
Due to related parties	320,665	320,665	-	320,665	-
Net servicing liability for securitized receivables	65,231,776	65,231,776	2,713,332	24,419,998	38,098,446
Financial facilities	1,289,911,878	1,289,911,878			
			356,338,245	62,358,739	871,214,894
	1,671,522,086	1,671,522,086	465,503,707	219,993,451	986,024,928
Contractual maturities of financial liabilities	2019				
	Carrying amount	Contractual cash flows	Up to three months	More than three months and up to one year	More than one year
<b>Non-derivative</b>					
Trade payables	96,959,030	96,959,030	96,959,030	-	-
Other payables and accruals	90,428,712	90,428,712	90,428,712	-	-
Due to related parties	141,437,643	141,437,643	141,437,643	-	-
Net servicing liability for securitized receivables	121,823,384	121,823,384	12,770,324	38,310,971	70,742,089
Financial facilities	1,319,652,376	1,319,652,376	520,339,172	312,083,916	487,229,288
	1,770,301,145	1,770,301,145	861,934,881	350,394,887	557,971,377



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**30- Financial Risk Management (continued)**

The table shows the analysis of financial assets and liabilities according to when they are expected to be recovered or settled:

	2020			
	Carrying amounts	up to three months	More than three months and up to one year	More than one year
Cash and cash equivalents	105,105,843	105,105,843	-	-
Other receivables and prepayments	852,180,436	303,914,530	149,941,089	398,324,817
Due from related parties	95,373,891	-	23,843,473	71,530,418
Net investment in Islamic financing	1,589,882,924	524,614,081	392,470,821	672,798,022
Investment carried at FVOCI	892,875	-	-	892,875
Margin deposits – restricted	133,102,147	47,346,842	19,419,787	66,335,518
<b>Financial assets</b>	<b>2,776,538,116</b>	<b>980,981,296</b>	<b>585,675,170</b>	<b>1,209,881,650</b>
Trade payables	24,655,069	24,655,069	-	-
Other payables and accruals	291,402,700	81,797,063	132,894,049	76,711,588
Due to related parties	320,665	-	320,665	-
Net servicing liability for securitized receivables	65,231,776	2,713,332	24,419,998	38,098,446
Financial facilities	1,289,911,878	356,338,245	62,358,739	871,214,894
<b>Financial liabilities</b>	<b>1,671,522,088</b>	<b>465,503,709</b>	<b>219,993,451</b>	<b>986,024,928</b>
<b>Maturity gap</b>	<b>1,105,016,028</b>	<b>515,477,587</b>	<b>365,681,719</b>	<b>223,856,722</b>
<b>Cumulative maturity gap</b>	<b>1,105,016,028</b>	<b>515,477,587</b>	<b>881,159,306</b>	<b>1,105,016,028</b>

**Analysis of financial assets and liabilities based on maturities**

The table show analysis of financial assets and liabilities according to when they are expected to be recovered or settled:

	2019			
	Carrying amounts	up to three months	More than three months and up to one year	More than one year
Cash and cash equivalents	36,613,543	36,613,543	-	-
Other receivables and prepayments	205,052,685	58,370,786	145,491,485	1,190,414 -
Due from related parties	2,759,156	2,759,156	-	-
Net investment in Islamic financing	2,537,044,903	616,940,090	173,797,254	1,746,307,559
Investment carried at FVOCI	892,875	-	-	892,875
Margin deposits – restricted	163,870,328	8,939,630	74,076,133	80,854,565
<b>Financial assets</b>	<b>2,946,233,490</b>	<b>723,623,205</b>	<b>393,364,872</b>	<b>1,829,245,413</b>
Trade payables	96,959,030	96,959,030	-	-
Other payables and accruals	90,428,712	90,428,712	-	-
Due to related parties	141,437,643	141,437,643	-	-
Net servicing liability for securitized receivables	121,823,384	12,770,324	38,310,971	70,742,089
Financial facilities	1,319,652,376	520,339,172	312,083,916	487,229,288
<b>Financial liabilities</b>	<b>1,770,301,145</b>	<b>861,934,881</b>	<b>350,394,887</b>	<b>557,971,377</b>
<b>Maturity gap</b>	<b>1,175,932,345</b>	<b>(138,311,676)</b>	<b>42,969,985</b>	<b>1,271,274,036</b>
<b>Cumulative maturity gap</b>	<b>1,175,932,345</b>	<b>(138,311,676)</b>	<b>(95,341,691)</b>	<b>1,175,932,345</b>

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**30- Financial Risk Management (continued)**

**Capital risk management**

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the sustained development of its business.

The Company manages its capital structure and makes adjustments to it in light of the changes in economic conditions and risk characteristics of the underlying assets. 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. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

The Company monitors aggregate amount of financing offered by the Company based on the regulatory requirements of Regulations for Companies and SAMA. SAMA requires Finance Companies engaged in financing other than real estate, to not exceed aggregate financing to capital ratio of three times. However, the Company has obtained exemption from SAMA to exceed the three times ratio limit.

	2020	2019
Aggregate financing to capital ratio (Net investment in Islamic financing divided by total equity)	1.49 times	2.23 times

**Fair Values of Financial Instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Company is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The Company's financial assets consist of cash and cash equivalents, investment, margin deposits, due from related parties and other receivables, its financial liabilities consist of trade payables, borrowings, net servicing liability for securitized receivables due to related party and other liabilities.

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

All financial assets and liabilities are measured at amortized cost except investment carried at FVOCI. The carrying amounts of all other financial assets and financial liabilities measured at amortized cost approximate to their fair values.



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**30- Financial Risk Management(continued)**

**31 December 2020**

**Financial asset**

**FVOCI designated**

Investment carried at FVOCI

Fair value			
Level 1	Level 2	Level 3	Total
-	-	892,875	892,875

**31 December 2019**

**Financial asset**

**FVOCI designated**

Investment carried at FVOCI

-	-	892,875	892,875
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**31- Impact of Covid-19 on Expected Credit Losses (“ECL”) and Saudi Central Bank (SAMA) programs**

The Coronavirus (“COVID-19”) pandemic continues to disrupt global markets as many geographies are beginning to experience a “second wave” of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia (“the Government”) however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Company continues to be cognizant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time and is closely monitoring its exposures at a granular level.

The prevailing economic conditions do require the Company to continue to revise certain inputs and assumptions used for the determination of expected credit losses (“ECL”). These primarily involves adjusting macroeconomic factors used by the Company in the estimation of ECL and haircut percentages applied to facilities with real estate as collateral were also revised as at December 31, 2020 and more haircuts were applied when compared with December 31, 2019. As the situation continues to be fluid, the management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. The Company has therefore recognised overlays as at 31 December 2020. The Company will continue to reassess as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

**Saudi Central Bank (SAMA) programs and initiatives launched**

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to the SME sector through empowering and facilitating the financing community. The PSFSP mainly encompasses the following programs:

- Deferred payments program; and
- Funding for lending program.

As part of the deferred payments program, the Company is required to defer payments for six months starting from March 14, 2020 on lending facilities to those borrowers that qualify as Micro Small and Medium Enterprises (MSME) as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H and classified in Bucket 1 (i.e. from 0 to 30 days overdue). In May 2020, SAMA notified to defer all payments due from Stage (2) eligible MSME customers, i.e. classified in Bucket 2 (from 31 to 60 days overdue) and/or Bucket 3 (from 61 to 90 days overdue) that are currently servicing their loans. Similarly, the Company is also required to defer payments for 12 months on lending facilities funded through Monsha’at loans to those borrowers that qualify as MSME. As a compensation, the Company has received deferment of repayments on its Monsha’at loans from the Social Development Bank for a period of 12 months starting from April 1, 2020. The payment reliefs are considered as short-term liquidity support to address the borrower’s potential cash flow issues. The Company has affected the payment reliefs by extending the tenure of the applicable financing granted with no additional costs to be borne by its customers.

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**31- Impact of covid-19 on expected credit losses ("ECL") and Saudi Central Bank (SAMA) programs (continued)**

The accounting impact of these changes in terms of the credit facilities and restructuring of Monsah'at loans has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. In the absence of other factors, participation in the PSFSP by any customer is not considered a significant increase in credit risk.

Further to the above, on September 01, 2020, SAMA extended the deferred payments program by allowing additional three months payment deferrals for eligible SMEs until 14 December 2020. The Company has affected the payment reliefs by extending the tenure and deferring the instalments falling due within the period from September 15, 2020 to December 14, 2020 for a period of additional three months. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of the arrangement.

In order to offset the modification loss which the Company is expected to incur in deferring the payments, SAMA communicated to the Company that the deferment of six months period on due installments on borrowings from banks will be granted and interest free deposit will not be provided to the Company by SAMA.

**32- Comparative figures**

Certain comparative figures have been reclassified, wherever necessary, to conform with the current period presentation.

<u>Adjustment</u>	<u>Amount</u>
Reclassification netted payables in other receivables to accruals and other payables	(23,238,750)
Reclassification customers advances from net investment in islamic financeings to accruals and other payables	(8,421,214)
Reclassification to accruals and other payables from other receivables and net investment in islamic financings	(31,659,964)
The Management has rsclassified the whole presentation of the profit or loss statement in accordance with the nature of income/expense.	-

**33- Date of Authorisation For Issue**

These financial statements were approved and authorized for issue on 03 March 2021 by the Board of Directors of the Company.