

**TAMWEEL AI OULA COMPANY**  
**(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT**  
**STOCK COMPANY)**

**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORT**

**31 DECEMBER 2022**

TAMWEEL AI OULA COMPANY  
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)

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FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

At 31 December 2022

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## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF TAMWEEL AL OULA COMPANY (A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)**

### **Opinion**

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia that is relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with this 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 that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged with Governance are responsible for overseeing the Company's financial reporting process.

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDER OF TAMWEEL AL OULA COMPANY  
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY) (continued)**

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional 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.

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDER OF TAMWEEL AL OULA COMPANY  
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY) (continued)**

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

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.

for Ernst & Young Professional Services

Waleed G. Tawfiq  
Certified Public Accountant  
Registration No. (437)

Al Khobar: 8 Sha'ban 1444H  
28 February 2023



**TAMWEEL AI OULA COMPANY**  
**(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

For the year ended 31 December 2022

	<i>Note</i>	<i>2022</i> <b>SR</b>	<i>2,021</i> <b>SR</b>
<b>REVENUE</b>			
Revenue from operations	7	<b>206,662,726</b>	130,375,481
Revenue from other activities	8	<b>18,846,544</b>	3,945,841
<b>TOTAL REVENUE</b>		<b>225,509,270</b>	134,321,322
<b>EXPENSES</b>			
Finance costs and bank charges	9	<b>(19,760,811)</b>	(13,388,058)
Salaries and employees' related expenses	10	<b>(37,949,110)</b>	(27,414,667)
Depreciation and amortisation	11	<b>(5,850,801)</b>	(3,347,601)
Other general and administrative expenses	12	<b>(20,886,386)</b>	(13,907,003)
Provision for expected credit losses on islamic finance receivables	13	<b>(51,054,992)</b>	(26,719,941)
<b>TOTAL EXPENSES</b>		<b>(135,502,100)</b>	(84,777,270)
<b>PROFIT BEFORE ZAKAT</b>		<b>90,007,170</b>	49,544,052
Zakat	27	<b>(9,243,059)</b>	(5,146,905)
<b>PROFIT FOR THE YEAR</b>		<b>80,764,111</b>	44,397,147
<b>OTHER COMPREHENSIVE LOSS</b>			
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement loss on employees' defined benefits liabilities	23	<b>(298,543)</b>	(199,189)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>80,465,568</b>	44,197,958
<b>Earnings per share</b>			
Basic and diluted earnings per share	20	<b>1.76</b>	1.77
Weighted average number of shares		<b>45,833,333</b>	25,000,000

The attached notes 1 to 33 form part of these financial statements.

TAMWEEL AI OULA COMPANY  
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	<i>Note</i>	<i>2022</i>	<i>2021</i>
		<i>SR</i>	<i>SR</i>
<b>ASSETS</b>			
Bank balances and cash	19	<b>21,626,376</b>	69,703,270
Prepayments and other receivables	18	<b>197,015,207</b>	88,320,192
Net investment in islamic finance receivables	13	<b>2,213,634,301</b>	1,693,604,693
Equity investment at fair value through other comprehensive income "OCI"	17	<b>892,850</b>	892,850
Property and equipment	16	<b>4,622,076</b>	3,243,742
Right-of-use assets	14	<b>8,237,971</b>	2,490,443
Intangible assets	15	<b>1,900,589</b>	2,113,628
<b>TOTAL ASSETS</b>		<b><u>2,447,929,370</u></b>	<b><u>1,860,368,818</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	20	<b>500,000,000</b>	250,000,000
Statutory reserve		<b>19,248,439</b>	11,172,028
Retained earnings		<b>94,919,613</b>	55,530,456
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b><u>614,168,052</u></b>	<b><u>316,702,484</u></b>
<b>LIABILITIES</b>			
Provision for zakat	27	<b>9,280,400</b>	5,145,697
Accrued expenses and other liabilities	26	<b>43,107,562</b>	26,717,260
Accounts payable	24	<b>135,487,171</b>	89,427,598
Loans and borrowings	21	<b>1,570,983,699</b>	1,364,929,417
Lease liabilities	22	<b>7,591,303</b>	1,612,389
Government grant	21	<b>56,570,812</b>	47,889,415
Amounts due to related parties	25	<b>3,726,326</b>	2,416,891
Employees' defined benefits liabilities	23	<b>7,014,045</b>	5,527,667
<b>TOTAL LIABILITIES</b>		<b><u>1,833,761,318</u></b>	<b><u>1,543,666,334</u></b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b><u>2,447,929,370</u></b>	<b><u>1,860,368,818</u></b>

The attached notes 1 to 33 form part of these financial statements.

**TAMWEEL AI OULA COMPANY**  
**(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)**

**STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**

For the year ended 31 December 2022

	<i>Share capital</i> SR	<i>Statutory reserve</i> SR	<i>Retained earnings</i> SR	<i>Total</i> SR
As at 1 January 2021	250,000,000	6,732,313	15,772,213	272,504,526
Profit for the year	-	-	44,397,147	44,397,147
Other comprehensive loss for the year	-	-	(199,189)	(199,189)
Total comprehensive income for the year	-	-	44,197,958	44,197,958
Transfer to statutory reserve	-	4,439,715	(4,439,715)	-
As at 31 December 2021	<u>250,000,000</u>	<u>11,172,028</u>	<u>55,530,456</u>	<u>316,702,484</u>
As at 1 January 2022	250,000,000	11,172,028	55,530,456	316,702,484
Profit for the year	-	-	80,764,111	80,764,111
Other comprehensive loss for the year	-	-	(298,543)	(298,543)
Total comprehensive income for the year	-	-	80,465,568	80,465,568
Transfer to statutory reserve	-	8,076,411	(8,076,411)	-
Dividends	-	-	(33,000,000)	(33,000,000)
Increase in capital (note 20)	250,000,000	-	-	250,000,000
<b>As at 31 December 2022</b>	<b><u>500,000,000</u></b>	<b><u>19,248,439</u></b>	<b><u>94,919,613</u></b>	<b><u>614,168,052</u></b>

The attached notes 1 to 33 form part of these financial statements.



**TAMWEEL AI OULA COMPANY**  
**(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)**

**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2022

	<i>Note</i>	<b>2022</b>	<b>2,021</b>
		<b>SR</b>	<b>SR</b>
<b>OPERATING ACTIVITIES</b>			
Profit before zakat		<b>90,007,170</b>	49,544,052
<i>Adjustments to reconcile income before zakat for the year to netcash flows:</i>			
Depreciation of property and equipment	16	<b>1,149,907</b>	605,817
Depreciation of right-of-use assets	14	<b>3,527,869</b>	1,623,476
Amortisation of intangible assets	15	<b>1,173,025</b>	1,118,308
Finance costs and bank charges		<b>69,428,559</b>	35,002,250
Employees' defined benefits liabilities, charged	23	<b>1,345,151</b>	947,297
Charge of expected credit loss on islamic finance receivables	13	<b>51,054,992</b>	26,719,941
Loss on modification of net investment in islamic finance receivables		-	29,152,449
Grant income realised		<b>(49,667,748)</b>	(21,614,192)
Loss on sale of property and equipment		<b>18,967</b>	54,140
		<b>168,037,892</b>	123,153,538
<i>Changes in operating assets and liabilities:</i>			
Net investment in Islamic finance receivables		<b>(571,084,600)</b>	(793,368,043)
Prepayments and other receivables		<b>(108,695,015)</b>	(71,820,696)
Amounts due to related parties		<b>1,309,435</b>	(4,416,028)
Accounts payable		<b>46,059,573</b>	33,796,199
Accrued expenses and other liabilities		<b>16,722,436</b>	14,114,830
Cash used in operations		<b>(447,650,279)</b>	(698,540,200)
Employees' defined benefits liabilities, paid		<b>(157,316)</b>	(235,189)
Zakat paid		<b>(5,108,356)</b>	(462,915)
Finance costs and bank charges paid		<b>(7,917,675)</b>	(6,992,923)
Net cash used in operating activities		<b>(460,833,626)</b>	(706,231,227)
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	16	<b>(2,547,208)</b>	(2,891,886)
Additions of intangible assets	15	<b>(959,986)</b>	(1,186,943)
Net cash used in investing activities		<b>(3,507,194)</b>	(4,078,829)
<b>FINANCING ACTIVITIES</b>			
Capital increase by cash injection		<b>250,000,000</b>	-
Dividends paid		<b>(33,000,000)</b>	-
Payment of lease liabilities		<b>(3,628,617)</b>	(1,689,904)
Proceeds from loans and borrowings		<b>979,856,000</b>	959,495,275
Repayment of loans and borrowings		<b>(776,963,457)</b>	(283,239,030)
Net cash from financing activities		<b>416,263,926</b>	674,566,341
<b>NET DECREASE IN BANK BALANCES AND CASH</b>		<b>(48,076,894)</b>	(35,743,715)
Bank balances and cash at the beginning of the year		<b>69,703,270</b>	105,446,985
<b>BANK BALANCES AND CASH AT THE END OF THE YEAR</b>		<b>21,626,376</b>	69,703,270

The attached notes 1 to 33 form part of these financial statements.

# TAMWEEL AI OULA COMPANY

## (A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)

### NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

#### 1 CORPORATE INFORMATION

Tamweel Al Oula Company ("the Company"), is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 2050055043 dated 15 Ramadan 1436H (corresponding to 2 July 2015).

The Company is engaged in providing financial leasing in addition to financing production assets and offering consumer finance in accordance with the license number 39/ASH/201512 dated 21 Safar 1437H (corresponding to 3 December 2015) issued by Saudi Central Bank ("SAMA").

The Company's registered office is located at PO 34232, Dammam, Kingdom of Saudi Arabia. The Company operates through the following branches:

<i>Commercial Registration Name</i>	<i>Number</i>	<i>Location</i>	<i>Date</i>
Tamweel Al Oula - Branch	2051065442	Al Khobar	17/04/1439H
Tamweel Al Oula - Branch	2252101795	Al Hasa	02/06/1439H
Tamweel Al Oula - Branch	1010691639	Riyadh	19/07/1442H
Tamweel Al Oula - Branch	4030416684	Jeddah	14/10/1442H
Tamweel Al Oula - Branch	5855360923	Khamis Mushait	13/11/1443H

The financial statements of the Company as of 31 December 2022 were authorised for issuance on 6 Sha'ban 1444H (corresponding to 26 February 2023 ).

#### 2 BASIS OF PREPARATION

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

##### 2.1 Basis of measurement

The financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except otherwise as disclosed in note 6. The statement of financial position is stated in order of liquidity.

##### 2.2 Going concern

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

##### 2.3 Presentation and functional currency

The presentation and functional currency of the Company is Saudi Riyal.

#### 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS as endorsed in KSA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets, liabilities and the accompanying disclosures, and the disclosure of contingent liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

TAMWEEL AI OULA COMPANY  
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

The Company has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2021 about future events that the Company believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Company. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses.

*Estimates and assumptions*

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognised in the financial statements) include:

*Credit losses of islamic finance receivables*

Impairment of Ijara and Tawarruq financing receivable requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's model for determination of defaults, which assigns loss rate (LR) to the individual pool of receivables and assessing the exposure at default (EAD).
- The Company's criteria for assessing the credit losses for islamic finance receivables to be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment.
- The segmentation of islamic finance receivables when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the appropriate inputs.
- Determination of associations between macroeconomic scenarios and economic inputs, such as government spending, and the effect on LR.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The current events and the prevailing economic condition require the Company to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These would primarily revolve around either adjusting macroeconomic factors used by the Company in estimation of expected credit losses or revisions to the scenario probabilities currently being used by the Company in ECL estimation.

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

TAMWEEL AI OULA COMPANY  
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

*Estimates and assumptions (continued)*

*Determination of discount rate for below-market loans:*

Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration time value of money. The Company determines the discount rate for below-market loans with reference to similar loans obtained from non-government agencies.

*Valuation of employees' defined benefits liabilities*

Employees' defined benefits liabilities represent obligations that will be settled in the future and require assumptions to project obligations, if any. The accounting requires management to make further assumptions regarding variables such as discount rates, rate of compensation increases, mortality rates and employment turnover. Periodically, management of the Company consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee' defined benefit costs incurred.

*Provisions*

By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

**4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS**

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**4.1 Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37**

onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Company cannot avoid because it has the contract) exceed the economic benefits expected to be received

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendment did not have a significant impact on the Company's financial statements.

**4.2 Reference to the Conceptual Framework – Amendments to IFRS 3**

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

TAMWEEL AI OULA COMPANY  
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)**

**4.2 Reference to the Conceptual Framework – Amendments to IFRS 3 (continued)**

In accordance with the transitional provisions, the Company applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the financial statements of the Company as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

**4.3 Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases**

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Company applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the financial statements of the Company as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

**4.4 IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter**

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the financial statements of the Company as it is not a first time adopter.

**4.5 IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities**

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Company applies the amendment to financial instruments that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Company as there were no modifications of the Company's financial instruments during the period.

**4.6 IAS 41 Agriculture – Taxation in fair value measurements**

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. These amendments had no impact on the financial statements of the Company as it did not have assets in scope of IAS 41 as at the reporting date.

TAMWEEL AI OULA COMPANY  
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**5 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

**5.1 Measurement of expected credit loss on net investment in Islamic finance receivables**

Based on regulatory requirements, the Company has changed its accounting policy to measure the expected credit loss on net investment in Islamic finance receivables from the simplified approach to the general approach, both are permissible under IFRS 9 ("Financial Instruments"). Accordingly, the Company has updated the impairment of financial instruments which is part of the policy applied for financial instruments.

***Financial instruments - impairment of financial instruments***

*Policy applicable as of 1 January 2022*

The Company records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit losses or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses ("12-month ECL").

The 12-month ECL is the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECL and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company assesses whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The Company groups its loans into Stage 1, Stage 2, Stage 3 and Purchased or Originated Credit Impaired ("POCI"), as described below:

- Stage 1: When net investment in Islamic finance receivables are first recognised, the Company recognises an allowance based on 12-month ECL. Stage 1 net investment in Islamic finance receivables also include facilities where the credit risk has improved and the balance has been reclassified from Stage 2.
- Stage 2: When a net investment in Islamic finance receivables has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 balances also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Net investment in Islamic finance receivables considered credit-impaired. The Company records an allowance for the LTECL.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The Company calculates ECL based on a probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive. Key components to calculate the ECL are outlined below:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**5 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**5.1 Measurement of expected credit loss on net investment in Islamic finance receivables (continued)**

- **LGD** The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD.

When estimating the ECL, the Company considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the net investment in Islamic finance receivables will cure and the value of collateral or the amount that might be received for selling the asset. Considering the Company does not have balance of a revolving nature, the maximum period for which the credit losses are determined is the contractual life of a financial instrument.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

- **Stage 1:** The Company calculates the 12-month ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- **Stage 2:** When a net investment in Islamic finance receivable has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL using lifetime PDs and LGDs. The expected cash shortfalls are discounted by an approximation to the original EIR.
- **Stage 3:** For net investment in Islamic finance receivables considered credit-impaired, the Company recognises the lifetime expected credit losses for these balances while setting the PD to 100%.

**Debt instruments measured at fair value through OCI**

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets. The Company does not carry any debt instruments measured at FVOCI.

**Purchased or originated credit impaired financial assets (POCI)**

For POCI financial assets, the Company only recognises the cumulative changes in LTECL since initial recognition in the loss allowance. The Company does not carry any POCI financial assets.

*Forward looking information*

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- GDP Growth
- Government oil revenue

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**5 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**5.1 Measurement of expected credit loss on net investment in Islamic finance receivables (continued)**

*Restructured financial assets*

Any exposure arrangement in which the original terms and conditions have been changed or modified. Normal annual renewal of exposures should not be categorized as restructured exposure. Restructuring may occur in the form of either forbearance or renegotiation as defined as below:

- a) Forborne Exposure: Any exposure arrangement in which the original terms and conditions have been changed or modified such that the modified terms result in a concession to the borrower, and the modification, which would not have been otherwise granted, was granted as a result of the borrower's financial difficulty.
- b) Renegotiated and/or Refinanced and/or Rescheduled Exposure: Any exposure arrangement in which the original terms and conditions have been modified. However, the modification does not necessarily result in a concession to the borrower and the modification was not granted as a result of the borrower's financial difficulty.

The Company considers a forborne exposure as a stage 2A and can retain the stage if the cash flow characteristics do no warrant migration in stage 3 or result in impairment.

The re-categorisation of a forborne exposure as performing should be made on the same level (i.e. debtor or transaction approach) as when the exposure was originally categorised as forborne.

*Credit enhancements: collateral valuation*

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS as endorsed in KSA and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a frequent basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Company uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

*Collateral repossessed*

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Company's policy.

In its normal course of business, the Company engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the statement of financial position.



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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**5 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**5.1 Measurement of expected credit loss on net investment in Islamic finance receivables (continued)**

*Write-off*

The Company's policy to write-off receivable balances is driven from the Saudi Central Bank "SAMA" regulation and its detailed below:

*Retail exposures*

- Retail unsecured exposures should be written off within 360 days once they are classified as stage 3 exposures.
- Retail secured loans (excluding mortgages) should be written off within 720 days once they are classified as stage 3 exposure.
- Retail mortgages should be written off before 1,080 days from the date they are classified as stage 3 exposure.

*Corporate exposures*

- Corporate exposures should be written off before 1,080 days from the date they are classified as stage 3 exposure.

In case, the above-mentioned time period of the write off is not followed, SAMA prior approval should be obtained on a case by case basis.

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted by the Company in preparing these financial statements are applied consistently, which are as follows:

**Fair value measurement**

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

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value measurement (continued)**

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

For the purpose of fair value disclosures, the Company determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**Revenue**

*Ijara ("Islamic lease receivable")*

The Company is generating revenue from Ijara contracts. Gross investment in Ijara represents the gross lease payments receivable by the Company, and the net investment represents the present value of these lease payments discounted at profit rate implicit in the lease. The difference between the gross investment and the net investment is recognised as unearned finance income. Finance lease income is recognised over the period of the lease on a systematic basis, which results in a constant periodic rate of return on the net investment outstanding.

*Tawarruq revenue*

The amortized cost of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective commission rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

*Insurance reimbursed/(paid), net*

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

**Service fees**

Service fees charged in respect of processing and other services are recognized as income over the period of financing agreements.

**Other income**

Other income is recognized when earned.

**General and administrative expenses**

General and administrative expenses include direct and indirect costs not specifically part of the operating activities of the Company.

**Finance costs**

Finance costs are expensed in the period to which they relate. Finance costs consist of profit and other costs that the Company incurs in connection with the borrowing of funds and amortisation of financial charges and lease liabilities.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Zakat**

The Company is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority (“ZATCA”) applicable on financing companies. Zakat expense is charged to the profit or loss. The charge for the period is calculated based on estimated zakat charge for the whole year.

The zakat base computed in accordance with the formula specified in the zakat Regulations is also subject to thresholds for minimum and maximum liability.

Zakat is provided in accordance with the regulations of ZATCA in the Kingdom of Saudi Arabia and on accruals basis. The provision is charged to profit or loss.

**Value added tax (VAT)**

Assets and expenses are recognised net of amount of VAT, except when VAT incurred on a purchase of assets or services is not recoverable from ZATCA, in which case, VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

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

**Foreign currencies**

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss and other comprehensive income.

**Islamic finance receivables**

Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessee such transfers are classified as Islamic financing receivables. Islamic financing receivables are recorded at the lower of the fair value of the financing asset and the present value of the minimum payments.

The Company offers its customers certain non-commission based products, which are approved by its Shariah Board, as follows:

*Ijara*

Ijara is a an agreement whereby the Company, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee. The difference between the gross receivables and the present value of the receivables is recognised as unearned finance income. Finance income from Ijara contract is recognised over the term of the Ijara using the net investment method, which reflects a constant periodic rate of return.

*Murabaha*

Murabaha is an agreement whereby the Company sells to a customer an asset which the Company has purchased and 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 contracts include the total of future sale payments on the Murabaha agreement (Murabaha sale contract receivable). The difference between the Murabaha sale contracts 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 contracts receivable.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Islamic finance receivables (continued)**

*Tawarruq*

Tawarruq is a form of Murabaha transactions where the Company purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements. The customer has the option to appoint whom he sees to sell the commodity, including the Company, according to a form approved by the Sharia'a committee. Then the agent deposits the proceeds in the customer's account.

*Musharaka*

Musharaka is an agreement between the Company and a bank to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the bank of the full ownership. The profit or loss is shared as per the terms of the agreement.

**Bank balances and cash**

Bank balances and cash on hand in the statement of financial position comprise cash at banks and cash on hand, which are subject to insignificant risk of change in value.

**Lease**

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*a) Company as a lessee*

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use assets*

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use).

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

*Lease liability*

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Lease (continued)**

*Short-term and low value assets' leases*

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

Leases in which substantially all the risks and benefits of ownership of the asset are not transferred to the Company are classified as operating leases. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

*b) Company as a lessor*

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Contracts based on Musharakah, which in substance represents a syndicated finance lease arrangement, is recorded as net investment in finance lease and is stated at cost, representing the balance of the Company's share in the Musharakah

**Intangible assets**

Intangible assets includes software; intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets. Intangible assets are amortised over a period of 1 - 5 years.

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and equipment**

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in statement of profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

	Years		Years
Leasehold improvements	5	Computers	4
Office furniture and fixtures	4		

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised. The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

**Financial instruments – initial recognition and subsequent measurement**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*i) Financial assets*

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, at amortised cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVIS).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments – initial recognition and subsequent measurement (continued)**

*i) Financial assets (continued)*

*Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- (i) Financial assets at amortised cost (debt instruments)
- (ii) Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- (iii) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- (iv) Financial assets at fair value through profit or loss

*Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes net investment in Islamic finance receivables.

*Financial assets at fair value through OCI (debt instruments)*

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Company does not have debt instruments carried at fair value through OCI.

*Financial assets designated at fair value through OCI (equity instruments)*

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 "Financial Instruments: Presentation" and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. The Company elected to classify irrevocably its non-listed equity investments under this category.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. The Company does not have any assets carried at fair value through profit or loss.

*Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments – initial recognition and subsequent measurement (continued)**

***i) Financial assets (continued)***

*Derecognition (continued)*

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

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

***Impairment of financial instruments***

The Company has changed its impairment of financial assets due to regulatory requirement. Refer to note 5 for the details of the new policy. The impact of the change in the policy was not significant as compared to application of the previous model, accordingly the Company did not restate the comparative balances as required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

***ii) Financial liabilities***

*Initial recognition and measurement*

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade payables, amounts due to related parties, lease liabilities and loans and borrowings.

*Subsequent measurement*

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

- (i) Financial liabilities at fair value through profit or loss
- (ii) Loans and borrowings

Out of above, only the category (ii) is applicable for the Company, which is described hereunder:

*Loans and borrowings*

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

When the Company obtains government loan at below market interest rate, the loan's amortised cost is calculated using an effective interest rate based on market rates. The subsidy is recognised as government grant.

*Derecognition*

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



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments – initial recognition and subsequent measurement (continued)**

*iii) Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

**Impairment of non-financial assets**

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

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

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

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

**Statutory reserve**

In accordance with the Saudi Arabian Regulations for Companies, 10% of the profit for the year is required to be transferred to the statutory reserve each year. The shareholders' may resolve to discontinue such transfer when the reserve equals 30% of the capital. This reserve is not normally available for distribution except in circumstances specified in the Saudi Arabian Regulations for Companies.

**Employees' benefits**

*(i) Short term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves and air fare that are expected to be settled wholly within twelve months after the end of the year in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting year and are measured at amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in statement of financial position.

*(ii) Employees' terminal benefits*

The Company has end of service benefits which is qualifies as defined benefits plan. The net pension liability or liability recognised in the statement of financial position in respect of defined benefit post-employment plans is the present value of the projected defined benefits obligation (DBO) less fair value of plan assets, if any.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Employees' benefits (continued)**

*(ii) Employees' terminal benefits (continued)*

DBO is re-measured on a periodic basis by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The net interest cost is calculated by applying the discount rate to the net balance of the DBO and the fair value of plan assets. This cost is included in employee benefit expense in the statement of income.

Re-measurement gains and losses arising from changes in actuarial assumptions are recognised in the period in which they occur in OCI. Changes in the present value of the DBO resulting from plan amendments or curtailments are recognised immediately in the statement of income as past service costs.

In KSA, for the liability for employees' end of service benefits, the actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labor and Workmen Law as well as the Company policy.

**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management of the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current Pre-tax (Zakat) rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**Accounting for government grants and disclosure of government assistance**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as a government grant and is recognised in the statement of profit or loss on a systematic basis over the period in which the entity recognises as expense the related costs which the grants is intended to compensate.

**Cash dividends**

The Company's recognises a liability to pay dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws of Saudi Arabia, a distribution is authorised when it is approved by the shareholders. a corresponding amount is recognised directly in equity.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

At 31 December 2022

**7 REVENUE FROM OPERATIONS**

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Tawaroq revenue	<b>122,457,553</b>	61,386,187
Ijarah income	<b>81,234,931</b>	62,189,953
Reimbursed insurance, net	<b>2,970,242</b>	6,799,341
	<b><u>206,662,726</u></b>	<b><u>130,375,481</u></b>

Customer wise revenue recognition

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
External customers	<b>163,345,511</b>	120,348,084
Related parties	<b>43,317,215</b>	10,027,397
	<b><u>206,662,726</u></b>	<b><u>130,375,481</u></b>

All of the Company's revenue is generated in the Kingdom of Saudi Arabia. The Company recognises the revenue in accordance with IFRS 9 "Financial Instruments" requirements.

**8 REVENUE FROM OTHER ACTIVITIES**

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Discounts from suppliers	<b>12,770,275</b>	3,343,090
Bad Debts Recovries	<b>4,038,099</b>	-
Income from term deposit	<b>435,121</b>	37,476
Others	<b>1,603,049</b>	565,275
	<b><u>18,846,544</u></b>	<b><u>3,945,841</u></b>

**9 FINANCE COSTS AND BANK CHARGES**

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Finance costs on loans and borrowings	<b>18,864,683</b>	12,948,097
Finance costs on employees' defined benefits liabilities (note 23)	<b>136,132</b>	109,653
Finance costs on lease liabilities (note 22)	<b>332,134</b>	49,390
Bank charges	<b>427,862</b>	280,918
	<b><u>19,760,811</u></b>	<b><u>13,388,058</u></b>

TAMWEEL AI OULA COMPANY  
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**10 SALARIES AND EMPLOYEES' RELATED EXPENSES**

	2022	2021
	SR	SR
Salaries	28,221,134	20,758,389
Bonuses and commissions	5,802,178	4,030,214
Other employees' costs	3,925,798	2,626,064
	<u>37,949,110</u>	<u>27,414,667</u>

**11 DEPRECIATION AND AMORTISATION**

	2022	2021
	SR	SR
Depreciation of right-of-use assets (note 14)	3,527,869	1,623,476
Amortization of intangible assets (note 15)	1,173,025	1,118,308
Depreciation of property and equipment (note 16)	1,149,907	605,817
	<u>5,850,801</u>	<u>3,347,601</u>

**12 OTHER GENERAL AND ADMINISTRATIVE EXPENSES**

	2022	2021
	SR	SR
Services charges	4,637,774	1,969,482
Advertising expenses	4,204,627	2,545,993
Governmental licenses and fees	2,805,463	2,020,684
IT services	2,605,001	2,308,037
Professional and consulting fees	1,313,441	671,748
Utilities expenses	1,238,733	380,448
Training expenses	1,002,022	346,631
Travel and transportation expenses	619,596	458,619
Value added expenses	602,601	1,222,330
Office supplies	448,932	284,438
Repair and maintenance	133,595	146,530
Rent	33,000	33,000
Donations	50,840	22,104
Other expenses	1,190,761	1,496,959
	<u>20,886,386</u>	<u>13,907,003</u>

# TAMWEEL AI OULA COMPANY

## (A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

#### 13 NET INVESTMENT IN ISLAMIC FINANCE RECEIVABLES

	2022	2021
	SR	SR
Gross investment in Islamic finance receivables	2,711,108,543	2,055,733,609
Less: unearned finance income	<u>(420,750,627)</u>	<u>(324,425,238)</u>
<b>Investment in Islamic finance receivables (before allowance for expected credit losses on Islamic finance receivables)</b>	<b>2,290,357,916</b>	<b>1,731,308,371</b>
Less: allowance for expected credit losses on Islamic finance receivables	<u>(76,723,615)</u>	<u>(28,616,817)</u>
Less: modification loss recognised on SAMA's deferment program	<u>-</u>	<u>(9,086,861)</u>
<b>Net investment in Islamic finance receivables</b>	<b><u>2,213,634,301</u></b>	<b><u>1,693,604,693</u></b>
<i>Analysed as follows:</i>		
Net investment in Islamic finance receivables, non-current	<b>1,299,156,563</b>	1,080,583,385
Net investment in Islamic finance receivables, current	<b><u>914,477,738</u></b>	<u>613,021,308</u>
	<b><u>2,213,634,301</u></b>	<b><u>1,693,604,693</u></b>

13.1 Movement in the allowance for expected credit losses on finance receivables is as follows:

	2022	2021
	SR	SR
At the beginning of the year	28,616,817	28,913,912
Provided during the year	51,054,992	26,719,941
Written off during the year	<u>(2,948,194)</u>	<u>(27,017,036)</u>
At the end of the year	<b><u>76,723,615</u></b>	<b><u>28,616,817</u></b>

13.2 The Company's implicit rate of return on investment in Islamic finance receivables is in market rate range. These receivables are majorly secured against assets, personal guarantees, Kafala program and down payments. The Company's major activities for investment in finance receivables are in Tawarruq and Ijarah.

13.3 Investment in Islamic finance receivables mainly include Ijara and Tawaruq contracts amounting to SR 1.27 billion and SR 1.4 billion respectively (2021: SR 905.04 million and SR 1.14 billion respectively).

13.4 The contractual rights and the titles of certain assets subject to the financing arrangements of Islamic financing receivables are under the name of Al Kifah Trading Company (a shareholder) amounting to SR 0.08 million (2021: SR 8.1 million). The shareholder waived rights over the assets and confirmed that the risks and rewards pertaining to the assets have been transferred to the Company.

13.5 At 31 December 2022, ijarah receivables include the Company's repossessed assets inventory for contracts having outstanding receivables amounting to SR 1.1 million (2021: 606.3 thousands).

# TAMWEEL AI OULA COMPANY

## (A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

#### 13 NET INVESTMENT IN ISLAMIC FINANCE RECEIVABLES (continued)

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

	<i>Gross investment in Islamic finance receivables</i>	<i>Unearned lease finance income</i>	<i>Net investment in Islamic finance receivables</i>
	SR	SR	SR
No later than one year (note 13.6 and 13.7)	1,108,172,560	193,694,822	914,477,738
Later than one year but not later than five years (note 13.7)	1,526,212,370	227,055,807	1,299,156,563
	<u>2,634,384,930</u>	<u>420,750,629</u>	<u>2,213,634,301</u>

The Maturity of the gross investment in Islamic finance receivables as at 31 December 2021 is as follows:

	<i>Gross investment in Islamic finance receivables</i>	<i>Unearned lease finance income</i>	<i>Net investment in Islamic finance receivables</i>
	SR	SR	SR
No later than one year (note 13.6 and 13.7)	762,407,432	147,545,452	614,861,980
Later than one year but not later than five years (note 13.7)	1,255,622,499	176,879,786	1,078,742,713
	<u>2,018,029,931</u>	<u>324,425,238</u>	<u>1,693,604,693</u>

13.6 Current portion of the gross investment in Islamic finance receivables has been netted off against the ECL provision amounting to SR 76.7 million (2021: 28.6 million).

13.7 During 2022, the Company did not recognise any modification loss on its current and non-current portions of the gross investment in Islamic finance receivables (2021: 5.2 and 3.9 million, respectively) as SAMA's Deferred Payment Program ("SAMA's DPP") was terminated on 31 March 2022 and the related modification losses were recognised on 31 December 2021 upon announcement of SAMA's DPP extension.

13.8 During the year, the Company has entered into a Musharakah agreement with a local Bank ("Musharakah Partner") for Ijara and Tawarruq receivables. In accordance with the terms of this agreement, the partners are participating in the underlying Ijarah and Tawarruq transactions on agreed basis allocating 20% for the Company and the remaining 80% for the other Musharakah Partner. Such receivables represent instruments initially originated by the Company and subsequently transferred to a third party. The Company assumes credit risk to the extent of its share in the agreement, a similar transactions was entered into by the Company during 2021.

The Company has derecognised net investment in Islamic finance receivables amounting to SR 225.5 million which represents 80% of the Musharaka agreement (2021: SR 88.15 million). As of 31 December 2022, the total outstanding balance related to the Musharaka Partner and the Company were SR 313.65 million and SR 78.41 million, respectively (31 December 2021: SR 88.15 million and SR 22 million, respectively).

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### NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

#### 13 NET INVESTMENT IN ISLAMIC FINANCE RECEIVABLES (continued)

13.9 During 2022, the Company has entered into an agreement to sell a tranche of its net investment in Islamic finance receivables amounting to SR 50 million of the gross value of the net investment in Islamic finance receivables outstanding balance to a commercial bank (the “Purchaser”) within the Kingdom of Saudi Arabia. Such receivables represent instruments initially originated by the Company and subsequently sold to a third party. The Company acts as an Agent to collect the outstanding amounts on behalf of the Purchaser and is entitled to collect a fee, this is dependent on the performance of the Company in the collection of the receivables. The Company has a restricted cash amounting to SR 4.6 million representing 10% of the collected amount against the sold net investment in Islamic finance receivables. As of 31 December 2022 the balance outstanding of the transaction amounted to SR 45.7(2021: nil).

#### 14 RIGHT-OF-USE ASSETS

	2022 SR	2021 SR
<i>Cost:</i>		
At the beginning of the year	6,358,505	3,357,833
Additions	9,275,397	3,000,672
Disposals	-	-
At the end of the year	<u>15,633,902</u>	<u>6,358,505</u>
<i>Accumulated depreciation:</i>		
At the beginning of the year	3,868,062	2,244,586
Charge for the year (note 11)	3,527,869	1,623,476
At the end of the year	<u>7,395,931</u>	<u>3,868,062</u>
<i>Net carrying amounts:</i>		
<b>At 31 December 2021</b>	<u><u>8,237,971</u></u>	
At 31 December 2020		<u><u>2,490,443</u></u>

The following had been recognised in the statement of profit or loss and other comprehensive income:

	2022 SR	2021 SR
Depreciation expenses for right-of-use assets	3,527,869	1,623,476
Expenses related to short-term and low-value leases	33,000	33,000
Finance cost on lease liabilities	332,134	49,390
	<u><u>3,893,003</u></u>	<u><u>1,705,866</u></u>

Right-of-use assets constitute the offices rented by the Company for its branches.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

At 31 December 2022

**15 INTANGIBLE ASSETS**

Intangible balance represents software and licenses with useful lives ranging from 1 to 5 years.

	<b>2022</b>	<b>2021</b>
	<b>SR</b>	<b>SR</b>
<i>Cost:</i>		
At the beginning of the year	<b>5,760,147</b>	4,573,204
Transfer from CWIP	<b>236,250</b>	233,475
Additions	<b>723,736</b>	953,468
At the end of the year	<b>6,720,133</b>	5,760,147
<i>Accumulated amortisation:</i>		
At the beginning of the year	<b>3,646,519</b>	2,528,211
Charge for the year (note 11)	<b>1,173,025</b>	1,118,308
At the end of the year	<b>4,819,544</b>	3,646,519
<i>Net book value :</i>		
<b>At 31 December 2022</b>	<b>1,900,589</b>	
At 31 December 2021		2,113,628

**16 PROPERTY AND EQUIPMENT**

	<i>Leasehold Improvements</i>	<i>Office furniture and fixtures</i>	<i>Computers</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<i>Cost:</i>				
At 1 January 2021	2,090,128	906,166	723,488	3,719,782
Transfer from CWIP	812,975	-	-	812,975
Additions	792,693	665,508	620,710	2,078,911
Disposals	(43,500)	(164,540)	(70,003)	(278,043)
At 31 December 2021	3,652,296	1,407,134	1,274,195	6,333,625
Transfer from CWIP	-	-	20,528	20,528
Additions	612,396	1,351,761	562,523	2,526,680
Disposals	-	(17,188)	(6,260)	(23,448)
At 31 December 2022	4,264,692	2,741,707	1,850,986	8,857,385
<i>Accumulated depreciation :</i>				
At 1 January 2021	1,760,526	666,779	280,664	2,707,969
Charge for the year (note 11)	194,645	172,814	238,358	605,817
Disposals	-	(160,999)	(62,904)	(223,903)
At 31 December 2021	1,955,171	678,594	456,118	3,089,883
Charge for the year (note 11)	404,692	427,600	317,615	1,149,907
Disposals	-	(1,390)	(3,091)	(4,481)
At 31 December 2022	2,359,863	1,104,804	770,642	4,235,309
<i>Net book value:</i>				
<b>At 31 December 2022</b>	<b>1,904,829</b>	<b>1,636,903</b>	<b>1,080,344</b>	<b>4,622,076</b>
At 31 December 2021	1,697,125	728,540	818,077	3,243,742



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

At 31 December 2022

**17 EQUITY INVESTMENTS HELD AT FVOCI**

The Company made an investment amounting to SR 892,850 for 89,285 shares at SR 10 each share representing a 2% ownership in the share capital of, "Saudi Leasing For Contract Registration Company". The registration Company has been formed for registration of contracts relating to financial leases, amendments registration and transfer of the title deeds of the assets under finance leases. Equity investment designated at fair value is classified under level 3 of the fair value hierarchy.

**18 PREPAYMENTS AND OTHER RECEIVABLES**

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Advance to suppliers (note 18.1)	<b>172,560,536</b>	980,195
Claims receivables from customers	<b>18,479,954</b>	3,261,184
Insurance claims	<b>4,429,920</b>	1,745,778
Prepayments	<b>1,486,289</b>	4,270,993
Amounts due from SAMA	-	77,940,158
Others	<b>58,508</b>	121,884
	<b>197,015,207</b>	<b>88,320,192</b>

18.1 The advances to suppliers include advances to related parties amounted to SR 152.5 as of 31 December 2022 (31 December 2021: nil). Refer to note 24 for further details.

**19 BANK BALANCES AND CASH**

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Bank balances	<b>21,626,376</b>	69,703,270

**20 SHARE CAPITAL**

During the year, the Shareholder of the Company has resolved to increase the share capital of the Company from SR 250 million to SR 500 million by way of cash injection. The legal formalities in this respect have been finalized. The authorised, issued and paid up capital consists of 50 million shares (2021: 25 million shares) of SR 10 share.

Basic and diluted earnings per share for the year ended 31 December 2022 and 2021 is calculated on a weighted average basis by dividing the net income for the year by outstanding number of shares during the year. Ownership percentage and amount of share capital are as follows:

<i>Name of shareholders</i>	<i>Ownership %</i>		<i>2022</i>	<i>2021</i>
	<i>2022</i>	<i>2021</i>		
			<i>SR</i>	<i>SR</i>
Al Kifah Holding Company	<b>100%</b>	100%	<b>500,000,000</b>	250,000,000

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

At 31 December 2022

**21 LOANS AND BORROWINGS**

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
<b><u>Loans and borrowings</u></b>		
SAMA support program (note 21.1)	<b>1,327,265,342</b>	1,100,443,427
Tawarruq financing (note 21.2)	<b>167,813,690</b>	167,541,540
Social development bank financing (note 21.3)	<b>80,972,056</b>	113,412,116
Less: Modification gain on deferment (note 21.1)	<b>(5,067,389)</b>	(16,467,666)
Net loans and borrowings	<b><u>1,570,983,699</u></b>	<u>1,364,929,417</u>
<b>Analyzed as follows:</b>		
	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Non-current portion	<b>687,418,487</b>	769,765,088
Current portion	<b>883,565,212</b>	595,164,329
	<b><u>1,570,983,699</u></b>	<u>1,364,929,417</u>

21.1 During 2020, the Company has signed an agreement with SAMA to enroll in the Deferred Payments Program ("SAMA's DPP"), that entitled the Company to obtain interest free loans as a part of the support provided to the financial sector to mitigate the impact of COVID-19. During the year, the Company has received interest free loans amounted to SR 77.9 million (31 December 2021: SR 209.7 million). The Modification gain on deferment includes an amount of SR 9.1 million (31 December 2021: SR 24.8 million), which is recorded under revenue from operations in the statement of profit or loss and other comprehensive income. All loans related to SAMA's DPP shall mature during 2023.

Further, the Company has obtained additional funds from SAMA under the loans guarantee program ("Kafalah") amounting to SR 830 million (the year ended 31 December 2021: SR 634.8 million) to finance its activities. These loans are repayable in equal monthly instalment over a 30 month period commencing six months after the receipt of each funding. Currently the Company's funds under this arrangement extend until 2026.

SAMA deferred payments program and loans guarantee program are carried at fair value using internal rate of return equivalent to the prevailing market rate. SAMA's DPP was terminated on 31 March 2022.

21.2 The Company has obtained a Tawarruq financing facilities from local commercial banks to finance the purchase of assets for leasing services. Tawarruq loans are of both long-term and revolving nature. The long-term loan is repayable within a 5-year period. The revolving loans are payable within the next 12 months. Tawarruq loans carry financial charges at prevailing market borrowing costs plus SIBOR. These Tawarruq loans are secured by promissory notes issued by the shareholder. The Company is required to comply with certain covenants under the facility agreements which includes maintenance of certain leverage ratios. The Company had no breach of covenants during the period.

21.3 During 2018, the Company obtained long-term loans from Social Development Bank ("SDB"), a governmental agent, to finance the purchase of assets for leasing services for small and medium sized entities ("SMEs") with 3-month grace periods. The Company has entered into similar agreements during 2020, 2021 and 2022 with all having 3-month grace periods, except for one loan obtained during 2020 which had a 6-month grace period due to COVID-19 related extension. The loans are repayable in equal monthly instalments commencing from January 2019 with the final instalment due in October 2025.

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**LOANS AND BORROWINGS (continued)**

21.3 The loans agreements do not include any covenant to maintain financial ratios during the loan period. Social Development Bank financing are carried at fair value using internal rate of return equivalent to the prevailing market rate. The difference between carrying value and face value as of initial recognition date, is treated as government grant, which is amortised over the duration of the related loans.

The loans received from SDB, carry special commission at rates significantly lower than the currently prevailing market rates. These loans carry a number of conditions, one of which is that these loans are to be used for providing loans to specific types/sectors of customers at discounted rates. The benefit being the impact of the “lower than market value” loans obtained by the Company has been identified and accounted for as “government grant” and has initially been recorded as income and such benefit is being recognised in statement of comprehensive income of the Company.

**22 LEASES**

Movement in lease liabilities is as follows:

	2022	2021
	SR	SR
At 1 January	1,612,389	252,231
Additions during the year	9,275,397	3,000,672
Finance costs for the year (note 9)	332,134	49,390
Payments during the year	<u>(3,628,617)</u>	<u>(1,689,904)</u>
At 31 December	<u><u>7,591,303</u></u>	<u><u>1,612,389</u></u>
<i>Classified as:</i>		
Current	3,640,643	858,113
Non-current	<u>3,950,660</u>	<u>754,276</u>
	<u><u>7,591,303</u></u>	<u><u>1,612,389</u></u>

Maturity analysis - contractual undiscounted cash flows

	2022	2021
	SR	SR
Less than 1 year	3,987,605	863,267
Later than one year to five years	<u>4,487,739</u>	<u>783,822</u>
	<u><u>8,475,344</u></u>	<u><u>1,647,089</u></u>

**23 EMPLOYEES' DEFINED BENEFITS LIABILITIES**

**Post employments benefits**

The management has carried out an exercise to assess the present value of its employees' defined benefits liabilities at 31 December in respect of employees' defined benefits liabilities under relevant local regulations and contractual arrangements. The following tables summaries the components of net benefit expense recognised in the statement of comprehensive income and balances reported in the statement of financial position:

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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**23 EMPLOYEES' DEFINED BENEFITS LIABILITIES (continued)**

**Present value of end of service benefits (Statement of financial position)**

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Present value of employees' defined benefits liabilities	<u><b>7,014,045</b></u>	<u><b>5,527,667</b></u>

The following table summarizes the components of the net benefit expense recognized in the income statement and statement of comprehensive income and amounts recognized in the statement of financial position.

**Net benefit expense recognised in income statement:**

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Current service cost for the period	<b>1,209,019</b>	947,297
Interest cost on benefit obligation for the period	<b>136,132</b>	109,653
	<u><b>1,345,151</b></u>	<u><b>1,056,950</b></u>

The movement in employees' defined benefits liabilities is as follows:

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
As at 1 January	<b>5,527,667</b>	4,506,717
Current service cost	<b>1,209,019</b>	947,297
Interest cost (note 9)	<b>136,132</b>	109,653
Actuarial loss	<b>298,543</b>	199,189
Payments during the year	<b>(157,316)</b>	(235,189)
As at 31 December	<u><b>7,014,045</b></u>	<u><b>5,527,667</b></u>

Actuarial loss/(gain) are due to:

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Change in financial assumptions	<b>(515,573)</b>	-
Experience adjustments	<b>814,116</b>	199,189
	<u><b>298,543</b></u>	<u><b>199,189</b></u>

The principal assumptions used in determining employee benefit obligations for the Company's plans are shown below:

	<i>2022</i>	<i>2021</i>
Discount rate:	<b>5.0%</b>	2.5%
Future salary increase	<b>4.5%</b>	3.0%
Rate of employee turnover	<b>Moderate</b>	Moderate

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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**23 EMPLOYEES' DEFINED BENEFITS LIABILITIES (continued)**

A quantitative sensitivity analysis for significant assumption on the employees' terminal benefits as at reporting date is as shown below:

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Increase in discount Rate 1%	<b>(449,382)</b>	(377,753)
Decrease in discount Rate - 1%	<b>511,592</b>	433,670
Increase in salary 1%	<b>509,003</b>	426,967
Decrease in salary -1%	<b>(455,488)</b>	(379,483)

The weighted average duration of the defined benefit obligation is 7.3 years (2021: 7.8 years). The expected maturity analysis of undiscounted defined benefit obligation is as follows (time in years):

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
1	<b>881,557</b>	639,225
2	<b>819,446</b>	587,498
3	<b>806,395</b>	592,797
4	<b>658,509</b>	529,102
5	<b>578,276</b>	411,900
6-10	<b>2,372,277</b>	1,563,883
<b>Total</b>	<b>6,116,460</b>	4,324,405

**24 ACCOUNTS PAYABLE**

Accounts payable are non-interest bearing and are normally settled on 30 to 120 days terms. For explanations on the Company's liquidity risk management processes, refer to note 29).

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

At 31 December 2022

**25 RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties include partners and entities controlled, jointly controlled or significantly influenced by such parties (affiliates). Pricing policies and terms of payments of transactions with related parties are approved by the Company's management.

<u>Names of related parties</u>	<u>Nature of Relationship</u>
Al Kifah Holding Company	Shareholder
Al Kifah Trading Company	Fellow subsidiary
Al Kifah for Building Material Company	Fellow subsidiary
Al Kifah Contracting Company	Fellow subsidiary
Al Motaweroon Company	Fellow subsidiary
Al Kifah Real Estate Company	Fellow subsidiary
Al Kifah Paper Products Company	Fellow subsidiary
Al Kifah Precast Company	Fellow subsidiary
Al Kifah Holding Company Branch	Branch of the shareholder
Al Kifah Information Technology Company	Fellow subsidiary
KiCe Construction Equipment Company	Fellow subsidiary
Green Vision Paper Products Company	Fellow subsidiary
Medical Infection Control Company	Fellow subsidiary
Al Kifah Ready Mix Factory Company	Fellow subsidiary
Optimal Supply for Catering Services Company	Fellow subsidiary

Following are the details of the major related party transactions occurred during the year:

<u>Related party</u>	<u>Nature of relationship</u>	<u>Nature of transactions</u>	<u>Amounts of transactions</u>	
			<u>2022</u>	<u>2021</u>
			<u>SR</u>	<u>SR</u>
Al Kifah Holding Company	Shareholder	Value added tax paid on behalf of the Company	<b>3,819,273</b>	3,296,425
		Services provided	<b>1,319,692</b>	3,752,951
		Dividends paid	<b>33,000,000</b>	-
Al Kifah Contracting Company	Fellow subsidiary	Amount collected against Islamic financing receivables	<b>(5,568,366)</b>	(4,362,144)
		Financing	-	9,200,000
Al Kifah for Building Material Company	Fellow subsidiary	Amount collected against Islamic financing receivables	<b>(7,219,665)</b>	(11,611,846)
		Financing	-	500,000
		Services provided	<b>150</b>	20,410
KiCe Construction Equipment Company	Fellow subsidiary	Heavy machinery and equipment sales financed by the Company	<b>43,512,500</b>	49,712,376
		Financing	<b>42,500,000</b>	15,000,000
		Amount collected against Islamic financing receivables	<b>(5,786,667)</b>	-

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

At 31 December 2022

**25 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

Following are the details of the major related party transactions occurred during the year: (continued)

<u>Related party</u>	<u>Nature of relationship</u>	<u>Nature of transactions</u>	<u>Amounts of transactions</u>	
			2022 SR	2021 SR
Al Motaweroon Company	Fellow subsidiary	Amount collected against Islamic financing receivables	<b>(11,906,933)</b>	(3,566,222)
		Financing	<b>29,200,000</b>	31,224,000
Al Kifah Holding Company Branch	Branch of the shareholder	Amount collected against Islamic financing receivables	<b>(3,750,986)</b>	(13,238,733)
Al Kifah Real Estate Company	Fellow subsidiary	Amount collected against Islamic financing receivables	<b>(16,999,600)</b>	(7,447,100)
		Financing	<b>27,500,000</b>	8,900,000
		Services provided	<b>3,170,431</b>	1,640,579
Al Kifah Paper Products Company	Fellow subsidiary	Amount collected against Islamic financing receivables	<b>(32,036,117)</b>	(7,403,178)
		Financing	-	4,500,000
		Amounts paid against rent	-	(16,255)
		Services provided	-	1,317
Al Kifah Precast Company	Fellow subsidiary	Amount collected against Islamic financing receivables	<b>(17,639,845)</b>	(7,447,100)
		Financing	<b>30,000,000</b>	8,900,000
Al Kifah Information Technology Comp	Fellow subsidiary	Information technology fee	<b>440,490</b>	2,308,817
Green Vision Paper Products Company	Fellow subsidiary	Financing	<b>46,154,709</b>	-
		Amount collected against Islamic finance receivables	<b>(11,237,236)</b>	-
Medical Infection Control Company	Fellow subsidiary	Financing	<b>22,500,000</b>	-
		Amount collected against Islamic finance receivables	<b>(1,493,333)</b>	-
Al Kifah Ready Mix Factory Company	Fellow subsidiary	Financing	<b>20,000,000</b>	-
		Amount collected against Islamic finance receivables	<b>(3,720,638)</b>	-
Optimal Supply for Catering Services Cc	Fellow subsidiary	Financing	<b>7,500,000</b>	-

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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**25 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

The breakdown of amounts due from/to related parties are as follows:

**Amounts due from related parties - (presented under net investment in Islamic finance receivables note 13):**

	2022	2021
	SR	SR
KiCe Construction Equipment Company	53,677,298	15,180,000
Al Motaweroon Company	47,329,543	27,251,245
Al Kifah Precast Company	45,841,814	30,168,046
Al Kifah Real Estate Company	43,981,717	30,210,755
Green Vision Paper Products Company	37,114,880	-
Medical Infection Control Company	21,658,881	-
Al Kifah Ready Mix Factory Company	17,945,390	-
Optimal Supply for Catering Services Company	7,500,000	-
Al Kifah Contracting Company	6,011,412	10,631,545
Al Kifah for Building Material Company	3,625,222	10,032,316
Al Kifah Holding Company Branch	1,329,765	4,748,495
Al Kifah Paper Products Company	-	28,768,046
	<b>286,015,922</b>	<b>156,990,448</b>

**Advances to related parties - (presented under prepayments and other receivables):**

	2022	2021
	SR	SR
KiCe Construction Equipment Company	<b>152,563,977</b>	-

**Amounts due to related parties - (presented under liabilities):**

	2022	2021
	SR	SR
Al Kifah Real Estate Company	3,234,597	420,468
Al Kifah Holding Company	439,335	1,741,873
Al Kifah Contracting Company	32,926	44,883
Al Kifah for Building Material Company	12,718	1,318
Al Kifah Information Technology Company	6,750	208,349
	<b>3,726,326</b>	<b>2,416,891</b>



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**25 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

Compensation and remuneration (including salaries and other benefits) for key management personnel is disclosed as follows:

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Short-term employee benefit	<b>2,599,653</b>	2,191,330
Post-employment benefits	<b>566,371</b>	332,007
	<b><u>3,166,024</u></b>	<b><u>2,523,337</u></b>

Prices and terms of payments of the above transactions with related parties have been approved by Company's management. Financing limits provided to related parties are approved by the Board of Directors.

**26 ACCRUED EXPENSES AND OTHER LIABILITIES**

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Amounts due to customers	<b>23,837,077</b>	21,884,498
Accrued expenses	<b>2,739,778</b>	4,113,250
Advance from customers	-	178,870
Others	<b>16,530,707</b>	387,811
	<b><u>43,107,562</u></b>	<b><u>26,717,260</u></b>

**27 ZAKAT**

The zakat base computed in accordance with the formula specified in the zakat regulations is also subject to thresholds for minimum and maximum liability.

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
Charge for the year	<b>9,280,400</b>	5,148,113
Prior period adjustments	<b>(37,341)</b>	(1,208)
	<b><u>9,243,059</u></b>	<b><u>5,146,905</u></b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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**27 ZAKAT (continued)**

The significant components of zakat base for the Company are as follows:

	<b>2022</b>	<b>2021</b>
	<b>SR</b>	<b>SR</b>
Shareholders' equity	<b>614,168,052</b>	316,949,639
Liabilities	<b>127,878,779</b>	196,655,915
Total sources of fund	<b>742,046,831</b>	513,605,554
Total assets	<b>2,447,929,370</b>	1,782,428,662
Total assets not subject to zakat	<b>(1,314,810,049)</b>	(1,089,324,049)
Total assets subject to zakat	<b>1,133,119,321</b>	693,104,613
Assets not subject for zakat / total Assets	<b>46%</b>	39%
Zakat base	<b>343,485,238</b>	199,717,602

The differences between the financial and the zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable results.

***Movements in zakat provision***

	<b>2022</b>	<b>2021</b>
	<b>SR</b>	<b>SR</b>
At the beginning of the year	<b>5,145,697</b>	461,707
Provided during the year	<b>9,243,059</b>	5,146,905
Paid during the year	<b>(5,108,356)</b>	(462,915)
At the end of the year	<b>9,280,400</b>	5,145,697

***Zakat assessments***

Zakat returns for the years 2016 through 2018 have been submitted to ZATCA as part of Al Kifah Holding Company (referred to as the "Group") as part of a consolidated zakat return. The Company is not liable for any additional liability related to those years. The zakat return for the years 2019 through 2021 has been submitted, however, the assessment has not yet been raised by ZATCA. The Company has a valid zakat certificate till 30 April 2023.

Zakat has been computed based on the Company's understanding of the zakat regulations enforced in the Kingdom of Saudi Arabia. The zakat regulations in Saudi Arabia are subject to different interpretations and new zakat regulations have been issued by ZATCA for financing companies. The assessments to be raised by ZATCA could be different from the declarations filed by the Company.

**28 FAIR VALUES OF FINANCIAL INSTRUMENTS**

At statement of financial position date all of the financial assets and financial liabilities are measured at amortised cost, except equity instrument which is classified under FVOCI and categorised under level 3 of fair value hierarchy. Fair value of financial assets does not significantly differ from the carrying value included in the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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**29 RISK MANAGEMENT**

The Company's significant financial liabilities include, loans and borrowings, government grant and trade and other payables, and are initially measured at fair value and thereafter stated at their amortized cost. Financial assets comprises of cash and cash equivalents and net investment in Islamic finance receivables and are initially measured at fair value and thereafter stated at cost or amortized cost as reduced by allowance for expected credit losses and impairment, if any.

The Company is exposed to interest rate risk, liquidity risk, credit risk and currency risk. The Company's senior management is supported by a risk committee that advises on financial risks and the appropriate financial risk governance framework for the Company.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

***Market risk***

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and commodity risk. Financial instruments affected by market risk include leasing activities, loans and borrowings.

***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Before entering into purchase and agency arrangements with banks, the Company is exposed to interest rate fair value risk on its financial assets to be sold. The Company monitors the market interest rate movements and negotiates the terms of the agreements with various banks and the majority of the receivables are sold to the banks. The Company has realized gains on sale of these financial assets.

The Company is also exposed to interest rate cash flow risk mainly on its short-term deposits. The average effective interest rate on short-term deposits is 2.72 % (31 December 2020: 0.57%).

As of 31 December 2022, the Company has loans from SAMA, Social Development Bank which are free-interest loans. The Company has loans from local banks bearing interest, an assumed increase of 100 basis points in profit/ interest rates would increase the Company's expenses for the year by SR 4,882,694 (2021: SR SR 1,675,415). A decrease of 100 basis points in profit/interest rates would have an equal and opposite effect.

***Currency and commodity risk***

The Company is not exposed to either currency nor commodity risks.

***Credit risk***

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk on cash and cash equivalents and net investment in Islamic finance receivables. The Company has established procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collaterals such as down payments and personal guarantees. individual Islamic financing contracts generally are for term not exceeding sixty-month.

Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular segment of customers.

The Company manages concentration of credit risk exposure through diversification of activities. However, the Company mitigates its credit risk through evaluation of credit worthiness and by obtaining promissory notes and by retaining the title of the vehicle leased out. For certain types of customers, the maximum credit limits are defined. An allowance expected credit loss is maintained at a level which, in the judgment of management, is adequate to provide for impairment losses on delinquent receivables.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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**29 RISK MANAGEMENT (continued)**

*Credit risk (continued)*

All investment in Islamic finance receivables are secured mainly through promissory notes and by retaining the title of the vehicle leased out and yield a fixed rate of commission for each contract. The title of the vehicles sold under finance lease agreements is held in the name of the Company as collateral to be repossessed, in case of default by the customer.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

*Expected credit loss assessment for investment in Islamic finance receivables*

The investment in Islamic finance receivables generally exposed to significant credit risk, therefore, the Company has established a number of procedures to manage credit risk exposure including evaluation of the lessees' credit worthiness, formal credit approvals, assigning credit limits obtaining collateral and personal guarantees.

The Company follows a credit classification mechanism, primarily driven by the day's delinquency as a tool to manage the quality of credit risk of investment in Islamic finance receivables. Further, the Company has categorised its investment in Islamic finance receivables into sub-categorised on the basis of similar credit risk characteristic. Exposures within each credit risk category are segmented by industrial classification and an ECL is calculated for each segment based on the delinquency status and actual credit loss experience over the past years. These rates are multiplied by scaler factors to reflect differences between economic conditions, current conditions and the Company's view of economic conditions over the expected lives of the investment in Islamic financing receivables.

Set out below is the information about the credit risk exposure on the Company's investment in Islamic finance receivables using a provision matrix at the reporting date:

<i>31 December 2022</i>					
	<i>ECL Coverage</i>	<i>Gross carrying amount</i>	<i>Net carrying amount</i>	<i>Loss allowance</i>	<i>Credit impaired</i>
<b>Corporates &amp; SMEs Enterprise</b>	<b>1%</b>	<b>1,604,262,954</b>	<b>1,459,185,949</b>	<b>10,857,601</b>	No
<b>Retail</b>	<b>1%</b>	<b>586,375,453</b>	<b>376,993,457</b>	<b>2,365,761</b>	No
<b>Doubtful</b>	<b>14%</b>	<b>110,660,620</b>	<b>90,764,569</b>	<b>13,092,205</b>	No
<b>Loss</b>	<b>14%</b>	<b>409,809,518</b>	<b>363,413,941</b>	<b>50,408,048</b>	Yes
		<b>2,711,108,545</b>	<b>2,290,357,916</b>	<b>76,723,615</b>	
<i>31 December 2021</i>					
	<i>ECL Coverage</i>	<i>Gross carrying amount</i>	<i>Net carrying amount</i>	<i>Loss allowance</i>	<i>Credit impaired</i>
Corporates & SMEs Enterprise	2%	1,542,407,606	1,349,438,990	22,446,946	No
Retail	1%	493,769,182	331,477,279	2,362,922	No
Doubtful	43%	9,527,726	7,130,143	3,097,258	No
Loss	100%	942,234	709,691	709,691	Yes
		<b>2,046,646,748</b>	<b>1,688,756,103</b>	<b>28,616,817</b>	

As detailed in note 5 to these financial statements, the Company has changed its accounting policy to calculate the expected credit loss. The above presented analysis is not directly comparative as both years are calculated using different models.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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**29 RISK MANAGEMENT (continued)**

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that the bank facilities and shareholders' support are available.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

**As of 31 December 2022**

	<i>Within 1 year</i>	<i>1 to 5 years</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>
Accounts payable	135,487,171	-	135,487,171
Amounts due to related parties	3,726,326	-	3,726,326
Loans and borrowings	883,565,212	687,418,487	1,570,983,699
Lease liabilities	3,987,605	4,487,739	8,475,344
	<u>1,026,766,314</u>	<u>691,906,226</u>	<u>1,718,672,540</u>

**As of 31 December 2021**

	<i>Within 1 year</i>	<i>1 to 5 years</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>
Accounts payable	89,427,598	-	89,427,598
Amounts due to related parties	2,416,891	-	2,416,891
Loans and borrowings	595,164,329	769,765,088	1,364,929,417
Lease liabilities	863,267	783,822	1,647,089
	<u>687,866,931</u>	<u>770,519,364</u>	<u>1,458,386,295</u>

**Changes in liabilities arising from financing activities**

**As of 31 December 2022**

	<i>1 January 2022</i>	<i>Cash outflow</i>	<i>Others/Cash inflow</i>	<i>31 December 2022</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Lease liabilities	1,612,389	(3,628,617)	9,607,531	7,591,303
Loans and borrowings	1,364,929,417	(776,963,457)	983,017,739	1,570,983,699
Total liabilities from financing activities	<u>1,366,541,806</u>	<u>(780,592,074)</u>	<u>992,625,270</u>	<u>1,578,575,002</u>

**As of 31 December 2021**

	<i>1 January 2021</i>	<i>Cash outflow</i>	<i>Others/Cash inflow</i>	<i>31 December 2021</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Lease liabilities	252,231	(1,689,904)	3,050,062	1,612,389
Loans and borrowings	682,709,255	(277,275,113)	959,495,275	1,364,929,417
Total liabilities from financing activities	<u>682,961,486</u>	<u>(278,965,017)</u>	<u>962,545,337</u>	<u>1,366,541,806</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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**29 RISK MANAGEMENT (continued)**

**Capital management**

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure. The Company manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders.

No changes were made in objectives, policies or processes for managing capital during the year ended 31 December 2022.

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

	2022	2021
	SR	SR
Aggregate financing to capital ratio (Total financing (net investment in Islamic finance receivables) divided by total shareholders' equity)	<u>3.6 times</u>	<u>5.35 times</u>

**Recovery from COVID-19**

The economy has successfully recovered from the effects of COVID-19, with strong GDP growth estimates for both 2023 and the following year. While the economy displays a healthy level of growth and activity, the Company will continue to closely monitor lending portfolios and economic indicators regularly.

**30 COMMITMENTS AND CONTINGENCIES**

As of the date of the statement of financial position, the Company did not have any outstanding commitments or contingencies.

**31 COMPARATIVE FIGURES**

Certain of the prior year numbers have been reclassified to conform with the presentation in the current year.

**32 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

**32.1 IFRS 17 Insurance Contracts**

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**32 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

**32.1 IFRS 17 Insurance Contracts (continued)**

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

**32.2 Amendments to IAS 1: Classification of Liabilities as Current or Non-current**

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

**32.3 Definition of Accounting Estimates - Amendments to IAS 8**

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company.

**32.4 Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2**

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company's accounting policy disclosures.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2022

**33 SUBSEQUENT EVENTS**

In the opinion of management, there have been no further significant subsequent events since the year ended 31 December 2022 that would have a material impact on the special purpose consolidated financial position of the Group as reflected in these special purpose consolidated financial statements.