NAYIFAT FINANCE COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
together with the
INDEPENDENT AUDITOR'S REPORT

NAYIFAT FINANCE COMPANY
(A Saudi Joint Stock Company)
Financial statements for the years ended 31 December 2022 and 2021

KPMG Professional Services
Riyadh Front, Airport Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Commercial Registration No 1010425494

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية
واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

Independent Auditor's Report

To the Shareholders of Nayifat Finance Company

Opinion

We have audited the financial statements of Nayifat Finance Company ("the Company"), which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), that is endorsed in the Kingdom of Saudi Arabia ("the Code"), 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.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">Key Audit Matter (continued)</th></tr>
<tr><td colspan="2">See Note 7 to the financial statements.</td></tr>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>

Expected credit loss allowance against Islamic financing receivables
As at 31 December 2022, the Islamic financing receivables before impairment were SR 1,812 million (2021: SR 1,625 million), against which an expected credit loss ("ECL") allowance of SR 63.6 million (2021: SR 50.2 million) was maintained.

We considered this as a key audit matter, as the determination of ECL involves significant estimation and management judgement, and this has a material impact on the financial statements of the Company. The key areas of judgement include:

1. Categorisation of receivables into Stages 1, 2 and 3 based on the identification of:

a) exposures with a significant increase in credit risk ("SICR") since their origination; and
b) individually impaired / default exposures.

2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including, but not limited to assessment of expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probability weightages.

3. The need to apply model overlays using expert credit judgement to reflect all relevant risk factors, that might not have been captured by the ECL model.

Application of these judgements and estimates have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as at 31 December 2022.

Refer to the summary of significant accounting policies note 3.13 (i) for impairment of financial assets; note 4 which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on Islamic financing receivables and the impairment assessment methodology used by the Company; note 27 (1) which contains the disclosure of impairment against these receivables, credit quality analysis and key assumptions and factors considered in determination of ECL.

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- We obtained understanding of management's assessment of ECL allowance against Islamic financing receivables, including the relevant accounting policy and model methodology, as well as any key changes during the year.
- We compared the Company's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9.
- We assessed the design and implementation and tested the operating effectiveness of key controls (including relevant IT general and application controls) over:
  - the classification of borrowers into various stages and timely identification of SICR and the determination of default / individually impaired exposures; and
  - the integrity of data inputs into the ECL model.
- For a sample of customers, we assessed:
  - the appropriateness of staging as identified by management; and
  - management's computation of ECL.
- We assessed the appropriateness of the Company's criteria for the determination of SICR and identification of "default" or 'individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the staging classification of the Company's Islamic financing receivables portfolio.
- We assessed the reasonableness of underlying assumptions used by the Company in the ECL model including forward looking assumptions.
- We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2022.
- We tested the completeness and accuracy of data supporting the ECL calculations as at 31 December 2022.
- Where required, we involved our specialists to assist us in reviewing model calculations, evaluating inter-related inputs (including PDs, LGDs and EADs) and assessing reasonableness of assumptions used in the ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weightages.
- We assessed the adequacy of disclosures in the financial statements.

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Other Matter – Comparative Information

The financial statements of the Company for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 30 January 2022.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA, the applicable requirements of the Regulations for Companies 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, the Audit Committee, are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Independent Auditor's Report

To the Shareholders of Nayifat Finance 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 of Nayifat Finance Company ("the Company").

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

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

Report on Other Legal and Regulatory Requirements

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

KPMG Professional Services

كي بي إم جي للاستشارات المهنية
Lic No. 46
C.R. 1010425494
R : 1
KPMG
ترخيص رقم ٤٦
KPMG Professional Services

Hani Hamzah A. Bedairi
License No: 460

Riyadh: 3 Sha'ban 1444 H
Corresponding to 23 February 2023

NAYIFAT FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022 and 2021
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	**As at 31 December**	
		2022	2021
ASSETS			
Cash and cash equivalents	*5*	**44,650**	59,123
Other balances with banks	*6*	**9,952**	98,748
Islamic financing receivables – net	*7*	**1,748,507**	1,574,453
Equity investments measured at fair value through OCI		**893**	893
Prepayments and other assets	*8*	**62,452**	50,540
Assets held for sale	*9*	**18,453**	18,661
Intangible assets	*10*	**18,626**	26,975
Property and equipment	*11*	**35,048**	38,154
Total assets		**1,938,581**	1,867,547
LIABILITIES AND EQUITY			
Accruals and other liabilities	*12*	**47,044**	33,027
Islamic bank financings and other liabilities	*13*	**565,747**	593,327
Provision for Zakat	*14*	**19,830**	25,970
Zakat payable	*14*	**5,360**	11,541
Provision for employees' end of service benefits	*15*	**11,900**	11,439
Total liabilities		**649,881**	675,304
Share capital	*16*	**1,000,000**	1,000,000
Statutory reserve	*17*	**99,945**	82,799
Retained earnings		**188,755**	109,444
Total equity		**1,288,700**	1,192,243
Total liabilities and equity		**1,938,581**	1,867,547

The accompanying notes 1 through 32 form an integral part of these financial statements.

FS.

Chief Financial Officer

Managing Director
and
Chief Executive Officer

Chairman of
Board of Directors

NAYIFAT FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2022 and 2021
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	For the year ended 31 December **2022**	2021
Commission income from Islamic financing receivables		**392,041**	390,855
Commission expense on Islamic bank financing	*19*	**(27,992)**	(19,579)
Net commission income from Islamic financing receivables		**364,049**	371,276
(Charge) / reversal of expected credit loss allowance – net	*7.5*	**(14,984)**	11,362
Salaries and other related expenses	*20*	**(88,478)**	(87,188)
General and administrative expenses	*21*	**(56,085)**	(35,953)
Depreciation and amortization	*10 &11*	**(13,640)**	(10,400)
Other income – net	*22*	**292**	1,491
Net income for the year before Zakat		**191,154**	250,588
Zakat charge for the year	*14*	**(19,697)**	(25,500)
Net income for the year		**171,457**	225,088
Other comprehensive income		**-**	-
Total comprehensive income for the year		**171,457**	225,088
Basic and diluted earnings per share	*23*	**1.71**	2.25

The accompanying notes 1 through 32 form an integral part of these financial statements.

FS.

Chief Financial Officer

Managing Director
and
Chief Executive Officer

Chairman of
Board of Directors

NAYIFAT FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2022 and 2021
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	**Share capital**	**Statutory reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2022		**1,000,000**	**82,799**	**109,444**	**1,192,243**
Total comprehensive income for the year		**-**	**-**	**171,457**	**171,457**
Transfer to statutory reserve	*17*	**-**	**17,146**	**(17,146)**	**-**
Dividend paid	*18*	**-**	**-**	**(75,000)**	**(75,000)**
Balance as at 31 December 2022		**1,000,000**	**99,945**	**188,755**	**1,288,700**
Balance as at 1 January 2021		1,000,000	60,290	59,085	1,119,375
Total comprehensive income for the year		-	-	225,088	225,088
Transfer to statutory reserve	*17*	-	22,509	(22,509)	-
Dividend paid	*18*	-	-	(152,220)	(152,220)
Balance as at 31 December 2021		1,000,000	82,799	109,444	1,192,243

The accompanying notes 1 through 32 form an integral part of these financial statements.

FS.

Chief Financial Officer

Managing Director
and
Chief Executive Officer

Chairman of
Board of Directors

NAYIFAT FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2022 and 2021
(All amounts in thousands of Saudi Riyals unless otherwise stated)

		For the year ended 31 December	
	Notes	**2022**	2021
Cash flows from operating activities			
Net income for the year before Zakat		**191,154**	250,588
Adjustments for			
Depreciation and amortization	*10 &11*	**13,640**	10,400
Intangibles asset under development written off	*10*	**6,469**	-
Provision for employees' end of service benefits	*15.2*	**3,023**	3,068
Charge / (reversal) of previously recognized loss on repossessed assets	*21*	**208**	(450)
Charge / (reversal) of expected credit loss allowance – net	*7.5*	**14,984**	(11,362)
Gain on fair valuation of derivatives	*22*	**-**	(54)
Commission expense on lease liabilities	*22*	**37**	30
Commission expense on Islamic bank financing	*19*	**27,992**	19,579
		257,507	271,799
Changes in operating assets and liabilities			
Islamic financing receivables – net		**(189,038)**	(42,508)
Prepayments and other assets		**(11,912)**	(2,640)
Accruals and other liabilities		**14,017**	(1,680)
Other balances with banks		**88,796**	56,442
		159,370	281,413
Employees' end of service benefits paid	*15.1*	**(2,562)**	(1,020)
Zakat paid	*14*	**(32,018)**	(29,111)
Commission expense and charges paid		**(27,992)**	(18,575)
Net cash generated from operating activities		**96,798**	232,707
Cash flows from investing activities			
Acquisition of intangible assets	*10*	**(6,848)**	(18,772)
Acquisition of property and equipment	*11*	**(1,806)**	(3,186)
Net cash used in investing activities		**(8,654)**	(21,958)
Cash flows from financing activities			
Proceeds from Islamic bank financings and SAMA deposits	*13.2*	**272,264**	347,494
Repayment of Islamic bank financings and SAMA deposits	*13.2*	**(299,421)**	(416,532)
Dividend paid	*18*	**(75,000)**	(152,220)
Payment of lease liabilities	*11.1*	**(460)**	(460)
Net cash used in financing activities		**(102,617)**	(221,718)
Net change in cash and cash equivalents		**(14,473)**	(10,969)
Cash and cash equivalents at the beginning of the year	*5*	**59,123**	70,092
Cash and cash equivalents at the end of the year	*5*	**44,650**	59,123

The accompanying notes 1 through 32 form an integral part of these financial statements.

Chief Financial Officer	Managing Director and Chief Executive Officer	Chairman of Board of Directors

FS.

1. GENERAL INFORMATION

Nayifat Finance Company (the "Company") is a Saudi joint stock company under Commercial Registration ("CR") number 1010176451 issued in Riyadh on 9 Jumad al-Thani 1431 H (corresponding to 23 May 2010). As per SAMA ("Saudi Central Bank") license no. 5/AS/201312 renewed on dated 23 Dhul-Hijjah 1439 H (corresponding to 3 September 2018), expiring on 26 Safar 1445 H (corresponding to 12 September 2023), the Company is authorized to provide lease finance, consumer finance, small and medium enterprise finance and credit cards financing in the Kingdom of Saudi Arabia.

The Company's registered office is located in Riyadh at the following address:
Nayifat Finance Company
7633 Al Ulaya – Al Woroud Dist.
Unit No. 1555
Riyadh 12253 - 2105
Kingdom of Saudi Arabia

2. BASIS OF PREPARATION

a) Statement of compliance

These financial statements of the Company have been prepared in compliance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") and the applicable requirements of the Regulations for Companies and the Company's By-laws.

b) Basis of measurement and presentation

These financial statements have been prepared on a going concern basis under the historical cost convention, except as disclosed in the notes to these financial statements.

The statement of financial position is stated broadly in order of liquidity.

c) Going concern

In making the going concern assessment, the Company has considered a wide range of information relating to present and future projections of profitability, cash flows and other capital resources etc.

d) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (SR), which is the Company's functional currency. Except as otherwise indicated, financial information presented in SR has been rounded off to the nearest thousand.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below.

3.1 Change in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2021. Based on the adoption of the new standard and in consideration of current economic environment, the following accounting policies are applicable effective 1 January 2022 replacing, amending, or adding to the corresponding accounting policies set out in 2021 annual audited financial statements.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 New standards, interpretations and amendments adopted by the Company

Following standards, interpretations and amendments are effective from the current year and are adopted by the Company. The Company has assessed that these amendments have no significant impact on the Company's financial statements.

Standards, interpretations and amendments	Description	Effective date
Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions extension of the practical expedient	As a result of the Coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.	Annual periods beginning on or after 1 April 2021
A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16	Amendments to IFRS 3, 'Business combinations' updated a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of comprehensive income. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 1, 'First-time adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.	Annual periods beginning on or after 1 January 2022.

3.3 Standards, interpretations, and amendments issued but not yet effective

Standards, interpretations, and amendments issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards when they become effective.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Standards, interpretations, and amendments issued but not yet effective (continued)

Standards, interpretations and amendments	**Description**	**Effective date**
Amendments to IAS 1, Presentation of financial statements', on classification of liabilities	These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. Note that the IASB has issued a new exposure draft proposing changes to this amendment.	Deferred until accounting periods starting not earlier than 1 January 2024
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	Annual periods beginning on or after 1 January 2023
Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction	These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	Annual periods beginning on or after 1 January 2023
IFRS 17, 'Insurance contracts', as amended in December 2021	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.	Annual periods beginning on or after 1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint ventures.	Available for optional adoption / effective date deferred indefinitely

The above standards, interpretations and amendments are not expected to have a significant impact on the Company's financial statements.

3.4 Cash and cash equivalents

Cash and cash equivalents comprise of unrestricted balances held with banks that are used by the Company to meet its short-term commitments. These are carried at amortized cost in the statement of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Islamic financing receivables (IFR)

The Company initially recognizes IFRs when, and only when, the entity becomes party to the contractual provisions of the instrument. IFRs are measured initially at fair value including directly attributable transaction costs which is generally the transaction price and subsequently at their amortized cost. IFRs are offered under the following two major Shariah compliant modes:

Tawarruq
It is a contract whereby the Company sells a commodity or an asset to its customer on a deferred payment basis. The customer sells the same commodity or an asset to a third party at market price to raise the needed cash. The selling price charged by Company comprises the cost plus an agreed commission margin.

Murabaha
It is a contract whereby the Company sells to customers a commodity or 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 commission margin.

3.6 Assets held for sale

The Company, in the ordinary course of business, acquires certain real estate assets against settlement of financing due from customers. Such real estate assets are considered as assets held for sale and are initially stated at the lower of net realizable value of due financing and the fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such assets. Rental income on assets held for sale is recognised in the statement of comprehensive income.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the statement of comprehensive income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the statement of comprehensive income. Gains or losses on disposal are recognised in the statement of comprehensive income.

3.7 Intangible assets

Recognition and measurement
Intangible assets acquired by the Company are measured at cost less accumulated amortization and accumulated impairment losses, if any. Subsequent expenditures on intangible assets are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the statement of comprehensive income as it is incurred.

Amortization
Intangible assets are amortized on a straight-line basis in the statement of comprehensive income over their estimated useful lives which ranges from three to seven years, from the date on which it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if considered appropriate.

3.8 Property and equipment

Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the asset) is recognized within other income in statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Property and equipment (continued)

Subsequent costs
Subsequent expenditure is capitalized only if it is probable that the future economic benefits of the expenditures will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

Depreciation
Depreciation is calculated to write off the cost of the items of property and equipment less their estimated residual values using the straight-line method over their useful lives and is generally recognized in the statement of comprehensive income. Land is not depreciated.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Leasehold land is not depreciated.

The estimated useful lives of property and equipment for the current and comparative years are as follows:

Building and freehold improvements	3 to 10 years
Leasehold improvements	5 years or period of lease whichever is lesser
Furniture and office equipment	3 to 10 years

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

3.9 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation 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 of the amount can be made.

3.10 Impairment of non-financial assets

The Company assesses at each reporting date whether there is any indication that non-financial assets may be impaired. If any indication exists, or when periodic 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 cash-generating unit's ("CGU") fair value less costs to sell and its value in use. Where 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining an asset's fair value less costs to sell, an appropriate valuation model is used. These model calculations are corroborated by valuation multiples, or other available fair value indicators.

An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, to the extent of the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset or the cash-generating unit in prior years. A reversal of an impairment loss is recognized as income in the statement of comprehensive income.

3.11 End of service benefits

Employee termination benefits are payable as a lump sum to all employees, under the terms and conditions of Saudi labor laws applicable on the Company, on termination of their employment contracts. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of the Kingdom of Saudi Arabia.

The calculation of the obligation is performed using the projected unit credit method to make a reliable estimate of the ultimate cost to the Company of the benefit payable to employees.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Revenue / expenses recognition

Special commission income is recognized to the extent that it is probable that economic benefits will flow to the Company, and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Special commission income and commission expense are recognized in the statement of comprehensive income using the effective commission rate method. The 'effective commission rate' is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective commission rate for financial instruments other than purchase or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but excluding expected credit losses. For purchase or originated credit-impaired financial assets, a credit adjusted effective commission rate is calculated using estimated future cash flows including ECL.

The calculation of the effective commission rate includes transaction costs and fees that are an integral part of the effective commission rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Fees from banking services are recognised when the service has been provided.

Measurement of amortized cost and special commission income

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective commission rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss ("ECL") allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any ECL allowance.

The effective commission rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or financial liability. In calculating special commission income and commission expense, the effective commission rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective commission rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market commission rates.

For financial assets that have become credit-impaired subsequent to initial recognition, commission income is calculated by applying the credit-adjusted effective commission rate to the amortized cost of the financial asset. The calculation of commission income does not revert to a gross basis, even if the credit risk of the asset improves.

Fee income and expenses

Fee income and expense that are integral to the effective commission rate on a financial asset or financial liability are included in the effective commission rate.

Other fee income / expense is generally recognized as the related services are performed / received.

3.13 Financial assets and financial liabilities

a) Recognition and initial measurement

The Company initially recognizes financial assets and financial liabilities when it becomes party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial assets and financial liabilities (continued)

b) Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

Financial assets at amortized cost

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

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

Financial assets at FVOCI

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

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

Equity investments
On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial assets at FVTPL

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial assets and financial liabilities (continued)

b) Classification of financial assets (continued)

Business model assessment (continued)

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

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

The Company's IFR portfolio comprises of financing to customers that are held for collecting contractual cash flows.

Assessments whether contractual cash flows are solely payments of principal and commission ('SPPC')

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

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

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

Equity instruments have contractual cash flows that do not meet the SPPC criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected.

The Company's IFR portfolio comprises financing to customers under Tawarruq and Murabaha structures in compliance with Shariah rules and cash flows comprise of commission income at a fixed rate determined at disbursement and principal re-payments and accordingly the contractual cash flows meet the SPPC criteria.

Reclassification

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

c) Classification of financial liabilities

The Company classifies its financial liabilities at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective commission rate.

All Islamic bank financing and other financial liabilities are initially recognised at fair value less transaction costs. Subsequently, financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial assets and financial liabilities (continued)

d) Derecognition of financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of:
(i) the consideration received (including any new asset obtained less any new liability assumed); and
(ii) any cumulative gain or loss that had been recognized in OCI is recognized in the statement of comprehensive income.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated at FVOCI is not recognized in the statement of comprehensive income on derecognition of such securities. Cumulative gains and losses recognized in OCI in respect of such equity investment securities are transferred to retained earnings on disposal. Any commission in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability.

e) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

f) Modification of financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the contractual cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of comprehensive income. If such a modification is carried out because of financial difficulties of the customer, then the gain or loss is presented together with impairment losses. In other cases, it is presented as commission income.

g) Modification of financial liabilities

The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in the statement of comprehensive income.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective commission rate and the resulting gain or loss is recognised in the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial assets and financial liabilities (continued)

h) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legally enforceable right to set off the amounts and the Company intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

i) Impairment

The Company recognizes ECL allowance on IFRs. The Company measures loss allowances at an amount equal to lifetime ECL, except for the following which are measured equal to a 12-month ECL:

• Financing investment securities that are determined to have low credit risk at the reporting date; and
• Other financial assets on which credit risk has not increased significantly since their initial recognition.

12-month ECL is the portion of lifetime ECL that results from default events on a financial asset that are possible within the 12 months after the reporting date. Financial assets, for which 12-month ECL is recognised, are referred to as 'Stage 1' financial instruments. Financial assets allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL is the ECL that results from all possible default events over the expected life of the financial asset or the maximum contractual period of exposure. Financial assets for which lifetime ECL is recognised but that are not credit-impaired are referred to as 'Stage 2' financial assets. Financial assets allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial assets for which the lifetime ECL is recognised and that are credit-impaired are referred to as 'Stage 3' financial assets.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. ECL is measured as follows:
• *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).
• *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows.

The key inputs into the measurement of ECL are the term structure of the following variables:
• Probability of Default ("PD"),
• Loss Given Default ("LGD"), and
• Exposure At Default ("EAD").

To evaluate a range of possible outcomes, the Company formulates various scenarios. For each scenario, the Company derives an ECL and applies a probability weighted approach to determine the impairment allowance in accordance with the applicable accounting standards requirements.

The above parameters are generally derived from internally developed statistical models and historical data which are adjusted for forward looking information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial assets and financial liabilities (continued)

i) Impairment (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the customer, then an assessment is made of whether the financial asset should be derecognized and ECL is measured as follows:

• If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and

• If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective commission rate of the existing financial asset.

Credit-impaired Islamic financing receivables

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired (Stage 3 financial assets). A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
• significant financial difficulty of the customer or issuer;
• a breach of contract such as a default or past due event;
• the restructuring of a receivable by the Company on terms that the Company would not consider otherwise; or
• it becomes probable that the customer will enter bankruptcy or other financial reorganization.

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

Presentation of allowance for ECL in the statement of financial position

Allowance for ECL of financial assets measured at amortised cost are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Write-off

Financing facilities are written off (either partially or in full) when there is no realistic prospect of recovery. Based won historical experience, this is assessed to be when loans are 1,080 days past due. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment charge for credit losses.

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 real estate properties, Kafalah guarantees and personal guarantees.

Collateral, unless repossessed, is not recorded on the Company's statement of financial position. However, the fair value of the real estate collateral affects the calculation of ECL. It is generally assessed, at a minimum, at inception and re-assessed on a yearly basis.

Non-financial collateral, such as real estate, is valued by third party valuers appointed by the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its Islamic financing exposure to profit rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are presented as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the statement of comprehensive income, except for the effective portion of cash flow hedges, which is recognised in the statement of comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been and are expected to be highly effective throughout the financial reporting years for which they were / are designated.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the statement of comprehensive income for the year.

3.15 Operating segments

The Company's operations are in the Kingdom of Saudi Arabia and currently provides Tawarruq cash financing to consumers, Small and Medium enterprises (SMEs) Customers and High Net-Worth Individuals (HNWIs) and credit cards to retail customers. Accordingly, the Company's operating segments comprise of personal financing, SME financing and Islamic credit cards. Common expenses which cannot be directly attributed to respective segments are allocated based on balances of respective segment as a percentage of total IFR portfolio.

3.16 Right of use assets / Lease liabilities

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

At inception or on reassessment 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 stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of use assets

The Company applies a cost model, and measures right of use (RoU) asset at cost less accumulated depreciation and accumulated impairment losses, if any which is adjusted for any re-measurement of the lease liability and lease modifications.

The RoU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of RoU assets are determined on the same basis as those of property and equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Right of use asset / Lease liabilities (continued)

Lease liabilities

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the commission rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental financing rate. Generally, the Company uses its incremental financing rate as the discount rate. After the commencement date, the Company measures the lease liability by:

1. Increasing the carrying amount to reflect commission on the lease liability.
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease liability is measured at amortised cost using the effective commission rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the RoU asset or is recorded in statement of comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.17 Zakat

The Company is subject to Zakat in accordance with Zakat regulations and its by-laws and related rules issued by the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense is charged to the statement of comprehensive income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. 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.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) <u>ECL allowance on Islamic financing receivables (note 3.13 (i), note 7 and note 27)</u>
The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows 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 loss allowances.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(i) ECL allowance on Islamic financing receivables (note 3.13 (i), note 7 and note 27) (continued)

The Company's ECL allowance 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 involve considerable judgements and estimates include:

- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PD, LGD and EAD; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

(ii) Present value of employees' end of service benefits (note 3.11 and note 15)

(iii) Fair value of assets held for sale (note 3.6 and note 9)

5. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2022	2021
Cash at bank – note 5.1	**44,650**	59,123

5.1 These comprise of current account balances held with local banks having sound credit ratings.

6. OTHER BALANCES WITH BANKS

	As at 31 December	
	2022	2021
Margin deposits – note 6.1	**9,952**	28,538
Term deposits	**-**	70,210
	9,952	98,748

6.1 Margin deposits are held with local banks against financing facilities obtained and the tenor of these deposits is in line with the maturity of the underlying financing facilities.

7. ISLAMIC FINANCING RECEIVABLES – NET

The business activities of the Company are in the Kingdom of Saudi Arabia and primarily represent Tawarruq cash financing and Islamic credit cards.

The breakup of Islamic financing receivables is as follows:

	As at 31 December	
	2022	2021
Tawarruq financing:		
- Personal	**1,367,022**	1,357,124
- SME	**336,766**	194,156
- Islamic credit cards	**44,719**	23,173
	1,748,507	1,574,453
Due within 12 months	**616,947**	503,409
Due after 12 months	**1,131,560**	1,071,044
	1,748,507	1,574,453

(All amounts in thousands of Saudi Riyals unless otherwise stated)

7. ISLAMIC FINANCING RECEIVABLES – NET (continued)

7.1 Reconciliation of gross to net Islamic financing receivables

31 December 2022

	Personal	**SME**	**Islamic credit cards**	**Total**
Gross receivables	**2,135,844**	**454,433**	**48,201**	**2,638,478**
Unearned commission income	**(715,138)**	**(111,192)**	**-**	**(826,330)**
	1,420,706	**343,241**	**48,201**	**1,812,148**
ECL allowance	**(53,684)**	**(6,475)**	**(3,482)**	**(63,641)**
Net receivables	**1,367,022**	**336,766**	**44,719**	**1,748,507**

31 December 2021

	Personal	SME	Islamic credit cards	Total
Gross receivables	2,115,170	272,009	24,655	2,411,834
Unearned commission income	(709,320)	(77,853)	-	(787,173)
	1,405,850	194,156	24,655	1,624,661
ECL allowance	(48,726)	-	(1,482)	(50,208)
Net receivables	1,357,124	194,156	23,173	1,574,453

7.2 Stage-wise analysis of Islamic financing receivables

31 December 2022

	Personal	**SME**	**Islamic credit cards**	**Total**
Stage 1	**1,080,714**	**217,087**	**33,351**	**1,331,152**
Stage 2	**160,992**	**28,378**	**5,102**	**194,472**
Stage 3	**179,000**	**97,776**	**9,748**	**286,524**
	1,420,706	**343,241**	**48,201**	**1,812,148**
ECL allowance	**(53,684)**	**(6,475)**	**(3,482)**	**(63,641)**
Net receivables	**1,367,022**	**336,766**	**44,719**	**1,748,507**

31 December 2021

	Personal	SME	Islamic credit cards	Total
Stage 1	1,224,335	148,801	18,302	1,391,438
Stage 2	29,902	-	1,319	31,221
Stage 3	151,613	45,355	5,034	202,002
	1,405,850	194,156	24,655	1,624,661
ECL allowance	(48,726)	-	(1,482)	(50,208)
Net receivables	1,357,124	194,156	23,173	1,574,453

(All amounts in thousands of Saudi Riyals unless otherwise stated)

7. ISLAMIC FINANCING RECEIVABLES – NET (continued)

7.3 Reconciliation of gross Islamic financing receivables

Movement in gross Islamic financing receivables is as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balances as at 1 January 2022	**1,391,438**	**31,221**	**202,002**	**1,624,661**
Transfer from Stage 1	**(421,586)**	**302,848**	**118,738**	**-**
Transfer from Stage 2	**68,673**	**(103,789)**	**35,116**	**-**
Transfer from Stage 3	**134,604**	**39,518**	**(174,122)**	**-**
Net other movements**	**158,023**	**(75,326)**	**143,284**	**225,981**
	(60,286)	**163,251**	**123,016**	**225,981**
Written off during the year	**-**	**-**	**(38,494)**	**(38,494)**
Balances as at 31 December 2022	**1,331,152**	**194,472**	**286,524**	**1,812,148**

	Stage 1	Stage 2	Stage 3	Total
Balances as at 1 January 2021	1,399,839	25,170	130,045	1,555,054
Transfer from Stage 1	(120,231)	26,186	94,045	-
Transfer from Stage 2	6,254	(15,863)	9,609	-
Transfer from Stage 3	7,351	662	(8,013)	-
Net other movements**	98,225	(4,934)	(4,714)	88,577
	(8,401)	6,051	90,927	88,577
Written off during the year			(18,970)	(18,970)
Balances as at 31 December 2021	1,391,438	31,221	202,002	1,624,661

**net other movements include financing originated, financing repaid and other measurements.

7.4 Movement in ECL allowance of Islamic financing receivables

	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2022	**1,291**	**65**	**48,852**	**50,208**
Transfer from Stage 1	**(419)**	**344**	**75**	**-**
Transfer from Stage 2	**47**	**(84)**	**37**	**-**
Transfer from Stage 3	**36,669**	**9,611**	**(46,280)**	**-**
Financial assets settled	**(657)**	**(35)**	**(777)**	**(1,469)**
New financial assets originated	**15,694**	**-**	**-**	**15,694**
Net re-measurement of loss allowance	**(41,780)**	**5,108**	**74,374**	**37,702**
	9,554	**14,944**	**27,429**	**51,927**
Written off during the year	**-**	**-**	**(38,494)**	**(38,494)**
Loss allowance as at 31 December 2022	**10,845**	**15,009**	**37,787**	**63,641**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	4,607	242	38,488	43,337
Transfer from Stage 1	(212)	212	-	-
Transfer from Stage 2	41	(267)	226	-
Transfer from Stage 3	582	63	(645)	-
Financial assets settled	(1,412)	(48)	(11,197)	(12,657)
New financial assets originated	5,072	-	-	5,072
Net re-measurement of loss allowance	(7,387)	(137)	40,950	33,426
	(3,316)	(177)	29,334	25,841
Written off during the year	-	-	(18,970)	(18,970)
Loss allowance as at 31 December 2021	1,291	65	48,852	50,208

(All amounts in thousands of Saudi Riyals unless otherwise stated)

7. ISLAMIC FINANCING RECEIVABLES – NET (continued)

7.5 (Charge) / reversal of expected credit loss allowance – net

	As at 31 December	
	2022	2021
Provision for expected credit loss allowance – net of reversal	**(51,927)**	(25,841)
Recoveries against receivables previously written off – note 7.5.1	**36,943**	37,203
(Charge) / reversal of expected credit loss allowance – net	**(14,984)**	11,362

7.5.1 This includes recoveries from written-off balances in the previous years. Considering the recoveries from previously written off balances, receivables to the extent of 60% of outstanding balance past due for more than 2 years were written off during the year ended 31 December 2022. This percentage is based on last four years' historical recoveries from loans past due by more than 2 years.

7.6 Assignment of Islamic financing receivables

The Company assigned Islamic financing receivables amounting to SR 0.7 billion (31 December 2021: SR 0.6 billion) to local commercial banks for obtaining Islamic bank financing. The carrying amount of associated Islamic bank financing amounts to SR 0.6 billion (31 December 2021: SR 0.6 billion). These Islamic financing receivables have not been derecognized from the statement of financial position as the Company retains substantially all the related risks and rewards, primarily credit risk. The Company is liable for the repayments of their assigned receivables to local commercial banks in case of customer default. The amount received on assignment of Islamic financing receivables has been recognized as Islamic bank financing in the statement of financial position. Pursuant to the terms of the transfer agreement, the Company is not allowed to re-pledge those receivables and the financial institution lenders have recourse only to the receivables in the event the Company defaults its obligation.

7.7 Amounts written off still subject to enforcement activity

As at 31 December 2022, Islamic financing receivables written off still subject to enforcement activity is SR 115 million (31 December 2021: SR 108 million).

8. PREPAYMENTS AND OTHER ASSETS

	As at 31 December	
	2022	2021
Commodity for facilitating Tawarruq financing	**44,500**	34,500
Advances and prepayments	**14,549**	14,003
Other receivables	**3,403**	2,037
	62,452	50,540

9. ASSETS HELD FOR SALE

	As at 31 December	
	2022	2021
Repossessed assets – real estate properties	**18,453**	18,661

These represent 7 properties (31 December 2021: 7 properties) in the Kingdom of Saudi Arabia which were repossessed by the Company against settlement of Islamic finance receivables.

The fair value of these properties were determined by independent valuers which are accredited by Saudi Authority for Accredited Valuers (TAQEEM). The fair value of the properties is based on the average valuations of three independent valuers. As per the valuation reports, market value of land was determined using the residual approach while market value of residential properties was determined using comparable approach. The cumulative fair value (level 3 hierarchy) of the same on 31 December 2022 is SR 29.2 million (31 December 2021: SR 30.4 million).

The carrying amount of assets held for sale is analysed as follows:

	As at 31 December	
	2022	2021
Carrying amount at classification as held for sale	**20,669**	20,669
Cumulative impairment loss on investment property	**(2,216)**	(2,008)
Carrying value of assets held for sale	**18,453**	18,661

(All amounts in thousands of Saudi Riyals unless otherwise stated)

10. INTANGIBLE ASSETS

	Note	**2022**	2021
Cost:			
As at 1 January		**41,790**	23,018
Additions during the year		**6,848**	18,772
Written off during the year	*10.1*	**(6,469)**	-
As at 31 December		**42,169**	41,790
Accumulated amortization:			
As at 1 January		**(14,815)**	(10,166)
Amortization charge during the year		**(8,728)**	(4,649)
As at 31 December		**(23,543)**	(14,815)
Net book value as at 31 December		**18,626**	26,975

10.1 Intangible assets comprise of software and intangible asset under development. The intangible asset under development has been written off during the year due to stability issues encountered during implementation.

11. PROPERTY AND EQUIPMENT

2022	**Freehold land**	**Building and freehold improvements** ** Note 11.1*	**Leasehold improvements**	**Furniture and office equipment**	**Total**
Cost					
As at 1 January	**27,963**	**7,133**	**10,282**	**19,146**	**64,524**
Additions during the year	**-**	**7**	**599**	**1,200**	**1,806**
As at 31 December	**27,963**	**7,140**	**10,881**	**20,346**	**66,330**
Accumulated depreciation					
As at 1 January	-	**5,278**	**8,110**	**12,982**	**26,370**
Charge for the year	-	**677**	**766**	**3,469**	**4,912**
As at 31 December	-	**5,955**	**8,876**	**16,451**	**31,282**
Net book value as at 31 December	**27,963**	**1,185**	**2,005**	**3,895**	**35,048**

2021	Freehold land	Building and freehold improvements ** Note 11.1*	Leasehold improvements	Furniture and office equipment	Total
Cost					
As at 1 January	27,963	16,079	9,448	16,817	70,307
Additions during the year	-	23	834	2,329	3,186
Adjustment on lease modification	-	(8,969)	-	-	(8,969)
As at 31 December	27,963	7,133	10,282	19,146	64,524
Accumulated depreciation					
As at 1 January	-	9,886	7,411	9,330	26,627
Charge for the year	-	1,400	699	3,652	5,751
Adjustment on lease modification	-	(6,008)	-	-	(6,008)
As at 31 December	-	5,278	8,110	12,982	26,370
Net book value as at 31 December	27,963	1,855	2,172	6,164	38,154

(All amounts in thousands of Saudi Riyals unless otherwise stated)

11. PROPERTY AND EQUIPMENT (continued)

11.1 The movement in right of use assets and corresponding lease liabilities for the years ended 31 December is as follows:

	2022	2021
Right of use assets		
As at 1 January	**1,183**	4,366
Adjustment on lease modification	**-**	(2,961)
Depreciation charge for the year	**(435)**	(222)
As at 31 December	**748**	1,183
Lease liabilities		
As at 1 January	**1,011**	3,452
Adjustment on lease modification	-	(2,011)
Commission expense	**37**	30
Payments made during the year	**(460)**	(460)
As at 31 December	**588**	1,011

11.2 The statement of comprehensive income includes the following amounts related to leases:

	Notes	**For the year ended 31 December**	
		2022	2021
Depreciation charge of right of use assets	*11.1*	**435**	222
Rent expense on short-term leases	*21*	**4,919**	4,827
Commission expense for leases	*22*	**37**	30

12. ACCRUALS AND OTHER LIABILITIES

	Note	**As at 31 December**	
		2022	2021
Accrued expenses		**6,520**	7,186
Accrued employees' costs		**9,623**	6,787
Accrued key management bonus and Board remuneration		**3,769**	6,582
Payable to suppliers		**9,408**	5,982
Others	*12.1*	**17,724**	6,490
		47,044	33,027

12.1 This includes collections which are not adjusted against customer accounts amounting to SR 14.4 million (2021: SR 5.3 million).

13. ISLAMIC BANK FINANCING AND OTHER LIABILITIES

	Notes	**As at 31 December**	
		2022	2021
Islamic bank financing	*13.1*	**553,319**	583,621
SAMA deposits	*13.1*	**11,840**	8,695
Lease liabilities	*13.3*	**588**	1,011
		565,747	593,327

13.1 The break-up of Islamic bank financing and SAMA deposits is as follows:

	As at 31 December	
	2022	2021
Due within 12 months	**237,591**	225,296
Due after 12 months	**327,568**	367,020
	565,159	592,316

(All amounts in thousands of Saudi Riyals unless otherwise stated)

13. ISLAMIC BANK FINANCING AND OTHER LIABILITIES (continued)

13.1 The breakup of Islamic bank financing and SAMA deposits is as follows: (continued)

The Company has long-term financing limits amounting to SR 1.9 billion (31 December 2021: SR 1.9 billion) with local banks to finance current and long-term funding needs of which SR 0.6 billion was utilized as of 31 December 2022 (31 December 2021: SR 0.6 billion). These financing facilities are repayable in three to four years in monthly, quarterly or bi-annual instalments. The commission rates on the financing availed range from 1 month / 3 months / 6 months SIBOR along with margin of 1.3% to 2%.

Under the terms of the financing arrangement, the Company adhered to financial covenants. The Company is required to maintain margin deposits (as disclosed in note 6). The cash cannot be withdrawn or used by the Company for liquidity purposes whilst the financing amount is outstanding, the same amount can be offset against the financing in the event of default, though there is no intention of net settlement on part of the Company.

SAMA deposits comprise of commission-free deposits received from SAMA as part of Private Sector Financing Support Program.

13.2 The movement in Islamic bank financing and SAMA deposits for the years ended 31 December is as follows:

	2022	2021
Payable as at 1 January	**592,316**	661,354
Proceeds from further financing during the year	**272,264**	347,494
Re-payments made during the year	**(299,421)**	(416,532)
Payable as at 31 December	**565,159**	592,316

13.3 The breakup of lease liabilities is as follows:

	As at 31 December	
	2022	2021
Due within 12 months	**444**	423
Due after 12 months	**144**	588
	588	1,011

13.4 Reconciliation of future lease payments to lease liability discounted using the incremental financing rate is as follows:

	As at 31 December	
	2022	2021
Future lease payments	**605**	1,065
Discounting impact at incremental financing rate	**(17)**	(54)
	588	1,011

14. PROVISION FOR ZAKAT AND ZAKAT PAYABLE

14.1 Movement in provision for Zakat for the years ended 31 December is as follows:

	2022	2021
As at 1 January	**25,970**	23,811
Charge for the year	**19,697**	25,500
Payments made during the year	**(25,837)**	(23,341)
Balance as at 31 December	**19,830**	25,970

(All amounts in thousands of Saudi Riyals unless otherwise stated)

14. PROVISION FOR ZAKAT AND ZAKAT PAYABLE (continued)

14.2 Movement in Zakat payable for the years ended 31 December is as follows:

	2022	2021
As at 1 January	**11,541**	17,311
Payments made during the year	**(6,181)**	(5,770)
Balance as at 31 December	**5,360**	11,541

14.3 Status of Zakat assessments

a) The final assessment and settlement for the Zakat liability for the years 2009-2013 was received during the year 2019 and settled subsequently.

b) As a major event, in the year 2018, the Company reached a settlement agreement with the Zakat, Tax and Customs Authority (ZATCA), to settle the Zakat liability amounting to SR 36.1 million for the years 2014-2017. The settlement agreement required the Company to settle 20% of the agreed Zakat liability in that year and the remaining to be settled over the period of five years. As a result of the settlement agreement, the Company has agreed to withdraw all of the previous appeals which were filed with the competent authority with respect to Zakat.

The above settlement is being paid as per the agreed schedule. As at 31 December 2022, the balance amount payable as per the settlement terms amounted to SR 5.3 million (2021: SR 11.5 million) is kept aside as Zakat payable. The maturity of Zakat payable has been disclosed in note 27 (ii) liquidity risk note.
.
There have been no assessment orders received during the year and there are no open assessments other than those mentioned above.

c) All due Zakat returns up to 2021 have been duly filed. The Zakat return for 2022 will be filed in due course.

15. PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

The Company operates an End of Service Benefits Plan (EOSB) for its employees based on the prevailing Saudi labor laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

15.1 The amounts recognized in the statement of financial position and movement in the provision for employees' end of service benefits during the years ended 31 December based on present value are as follows:

	2022	2021
Provision for employees' end of service benefits as at 1 January	**(11,439)**	(9,391)
Current service costs	**(2,773)**	(2,847)
Commission expense	**(250)**	(221)
Benefits paid	**2,562**	1,020
Provision for employees' end of service benefits as at 31 December	**(11,900)**	(11,439)

15.2 Charge for the year recognized in the statement of comprehensive income is as follows:

	For the year ended 31 December	
	2022	2021
Current service costs	**2,773**	2,847
Commission expense	**250**	221
	3,023	3,068

(All amounts in thousands of Saudi Riyals unless otherwise stated)

15. PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (continued)

15.3 Principal actuarial assumptions in respect of the provision for emplyees' end of service benefits

	As at 31 December	
	2022	2021
Discount rate (per annum)	**4.65%**	2.3%
Salary escalation rate (per annum)	**4.5%**	3%
Normal retirement age	**60M-55FM**	60M-55FM

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

15.4 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the provision for employees' end of service benefits valuation as at 31 December 2022 and 2021 to the discount rate, salary escalation rate, mortality rate and withdrawal rate.

2022	Impact on provision for employees' end of service benefits – increase / (decrease)		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**1%**	**(11,310)**	**12,734**
Salary escalation rate	**1%**	**12,728**	**(11,303)**
Mortality rate	**20%**	**(11,982)**	**11,986**
Withdrawal rate	**20%**	**(11,363)**	**12,720**

2021	Impact on provision for employees' end of service benefits – increase / (decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(11,402)	12,962
Salary escalation rate	1%	12,947	(11,400)
Mortality rate	20%	(12,136)	12,141
Withdrawal rate	20%	(11,370)	13,086

The above sensitivity analysis is based on a change in one assumption keeping all other assumptions constant.

The sensitivity analysis presented above may not be representative of the actual change in the provision for employees' end of service benefits as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions are correlated.

There is no change in the methods and assumptions used in preparing the sensitivity analysis from prior year.

16. SHARE CAPITAL

As at 31 December 2022 and 2021, the authorised, issued and fully paid-up share capital of the Company was SR 1,000 million divided into 100 million shares with a nominal value of SR 10 each.

On 29 November 2022, the Board of Directors approved a proposed increase in the Company's share capital through a one-for-five bonus share dividend subject to final approval of the Extraordinary General Assembly.

17. STATUTORY RESERVE

In accordance with the Regulations for Companies in Saudi Arabia, the Company is required to set aside a statutory reserve, after absorption of accumulated losses, if any, by the appropriation of at least 10% of the annual net income until such reserve equals 30% of the Company's share capital. This reserve is not available for distribution. Such transfer is made to the statutory reserve account on an annual basis at year-end. During the year, the Company has transferred SR 17.1 million (2021: SR 22.5 million) to the statutory reserve.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

18. DIVIDEND

During the current year, the Board of Directors in their meeting held on 15 May 2022, announced an interim dividend of SR 0.75 per share (2021: SR 1.5 per share), which has been duly paid by the Company.

19. COMMISSION EXPENSE

	For the year ended 31 December	
	2022	2021
Commission expense on Islamic bank financing	**23,686**	15,356
Bank charges	**4,306**	4,223
	27,992	19,579

20. SALARIES AND EMPLOYEES RELATED EXPENSES

	For the year ended 31 December	
	2022	2021
Salaries and related costs	**48,729**	48,414
Other employee related costs	**31,632**	27,998
Accrual for bonus	**4,667**	7,295
Directors and Board Committees' attendance fees	**3,450**	3,481
	88,478	87,188

21. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2022	2021
Legal and professional charges	**8,539**	4,962
Insurance	**7,217**	5,456
Intangible asset under development written off – note 10.1	**6,469**	-
IT support charges	**6,426**	1,873
Marketing and advertisements	**6,141**	4,427
Utilities, telephone and communication	**5,557**	5,577
Repairs, maintenance and office supplies	**5,322**	4,991
Rentals relating to short term leases	**4,919**	4,827
Auditors' remuneration	**940**	675
Impairment / (reversal of impairment) on assets held for sale	**208**	(450)
Others	**4,347**	3,615
	56,085	35,953

22. OTHER INCOME – NET

	For the year ended 31 December	
	2022	2021
Commission income from short-term Murabaha deposits	**294**	359
Commission expense on lease liabilities	**(37)**	(30)
Rental income and others	**35**	1,108
Gain on fair valuation of derivatives	**-**	54
	292	1,491

23. EARNINGS PER SHARE

The basic and diluted earnings per share (EPS) have been computed by dividing net income for the year by the weighted average number of shares outstanding during the year.

	As at 31 December	
	2022	2021
Net income for the year	**171,457**	225,088
Weighted average number of shares for basic and diluted EPS	**100,000**	100,000
Basic and diluted earnings per share (in Saudi Arabian Riyals)	**1.71**	2.25

(All amounts in thousands of Saudi Riyals unless otherwise stated)

24. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company include shareholders, key management personnel and companies under common directorship. In the ordinary course of its activities, the Company transacts business with its related parties on mutually agreed terms.

24.1 Significant related party transactions during the year were as follows:

Related party	Nature of transactions	As at 31 December	
		2022	2021
Shareholders	Cash dividend declared and paid	**75,000**	152,220
Key management personnel (KMPs) – note 24.1.1 (Number of KMPs: 14 (2021: 15)	Compensation for the year (short-term)	**14,161**	16,829
	Employees' end of service benefits entitlement (post-employment benefit)	**587**	861
Directors and Board committee's members	Remuneration of directors and Board committee's members	**3,450**	3,581
Common directorship	Zakat / VAT consultancy fee	**273**	288
	IT software services rendered	**3,660**	9,447
Affiliated Company – Yaqeen Capital (note 24.1.2)	Commodities / securities dealings account – net transactions	**12,000**	3,000
	Rental charge	**1,053**	1,116
	Advisory charges and others	**176**	70

24.1.1 Key management personnel of the Company include Chief Executive Officer and senior management.

24.1.2 Affiliated company is under common control of the Parent company – Falcom Holding Company.

24.2 Significant balances of related parties as at statement of financial position date were as follows:

		As at 31 December	
		2022	2021
Related party	**Nature of outstanding balance**	**Amount receivable / (payable)**	
Affiliated Company – Yaqeen Capital (note 24.1.2)	Commodities for facilitating Tawarruq financing – held on behalf of the Company	**45,014**	35,170
Directors and Board Committee members	Board remuneration payable	**(3,769)**	(3,229)
Key management personnel (note 24.1.1)	Compensation payable	**-**	(3,353)
	EOSB payable	**(1,801)**	(3,266)

25. CONTINGENCIES AND COMMITMENTS

Contingencies
The Company has certain legal cases pending in courts against it. However, based on management's best estimate no significant contingencies exist as at 31 December 2022 (31 December 2021: nil).

Capital commitments
There are no significant capital commitments as at 31 December 2022 (31 December 2021: nil).

Short-term lease commitments
Commitments for short-term leases as at 31 December 2022 amounted to SR 4.9 million (31 December 2021: SR 4.8 million). The Company's short-term leases commitments relate to branch premises.

Credit cards related commitments
Credit related commitments comprise irrevocable commitments to extend credit. Undrawn credit cards limits as at 31 December 2022 amounted to SR 10.1 million (31 December 2021: SR 6.4 million). SME related commitments as at 31 December 2022 amounted to SR 0.2 million (31 December 2021: SR 3.5 million).

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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, the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value 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 fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value hierarchy of financial assets and liabilities

All financial assets and liabilities which are carried at fair value are of an insignificant amount.

The fair value of Islamic financing receivables is classified as level 3 as per fair value hierarchy and has been determined using expected cash flows discounted at relevant current effective profit rate for respective segment. The fair value as at 31 December 2022 amounts to SR 1,676 million (31 December 2021: SR 1,504 million).

For all other financial assets and liabilities which are not measured at fair value, the Company has assessed that the carrying amount approximates their fair value due to their short-term nature and frequent re-pricing. Cash and cash equivalents have been classified as level 1 while all remaining financial assets and liabilities are classified as level 3 as per the fair value hierarchy and have been determined by using expected cash flows discounted at relevant current effective profit rate.

27. FINANCIAL RISK MANAGEMENT

The Company's Board of Directors has overall responsibility for the establishment and supervision of the Company's risk management framework. The Board of Directors has established a Risk Management Committee to oversee the development and maintenance of risk management processes, policies, strategies, risk methodologies and reporting them to the Board of Directors. The Risk Management Committee oversees the Company's risks and reports to the Board.

In addition, the Audit Committee of the Company also reviews the internal audit risk assessment, discusses the Company's policy with respect to risk assessment and risk management. The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

i) Credit risk

Credit risk is the risk that one of the parties to a financial instrument will fail to discharge their obligation and cause the other party to incur a financial loss. The Company's exposure to credit risk arises principally from Islamic financing receivables.

Islamic financing receivables (IFR) – also see note 3.13 (i) and note 7
IFRs are exposed to significant credit risk. The Company has established procedures to manage credit exposure including robust process regarding evaluation of credit worthiness which includes obtaining formal credit approvals, assigning risk-based credit limits, and obtaining collateral such as personal guarantees from consumer segment and tangible collateral from most SME & HNWI customers of at least 150% of the financing amount.

The assessment of credit worthiness include the following key parameters:
- Dual credit score i.e. SIMAH and application scoring system.
- Minimum income level and maximum financing burden of the customer.
- Repayment history with other financial institutions sourced from SIMAH.
- Salary certificate from the employer and last three months' bank statement where the customer's monthly salary is credited.

Majority of the Company's customers are Government sector employees. To manage this concentration risk, customers are requested to provide standing instructions to credit Nayifat account by monthly installments due. In addition, the customers also provide direct debit mandate as a stand-by repayment mode. The Company generally receives repayments through SADAD and bank transfers. The Company has an approved collection policy and procedure manual establishing a collection strategy to follow up with delinquent customers. In order to monitor exposure to credit risk, on monthly basis reports are produced by the Management Information System (MIS) department and are reviewed by Board Credit Committee on a quarterly basis. These reports show the collection and delinquency status of the customers. The Company has strengthened its legal department to be actively involved in the collection process of delinquent customers. The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The assessment of credit risk of IFR also requires further estimations of credit risk using ECL which is derived by PD, LGD and EAD.

27. FINANCIAL RISK MANAGEMENT (continued)

i) Credit risk (continued)

Generating the term structure of PD
PD for personal financing is calculated using an 'observed default rate' method which is based on the actual default history of the portfolio. To generate the term structure, obligors are classified into performing and non-performing categories over a time period which is based on days past due. An obligor is considered as non-performing (Stage 3) whose last instalment is past due by more than 90 days. The average ratio of the non-performing customers to performing customers for each segment based on income of the obligor provide the observed default rate for that segment. This is then converted to a forward-looking estimate by incorporating probability-weighted current forecasts of selected macroeconomic variables.

For credit cards, due to unavailability of extensive historical data, personal financing loss rates have been used as a proxy value. Similarly, due to unavailability of extensive historical data for SMEs and HNWIs, a proxy PD using industry classification of the customer is derived from latest Moody's publication.

Significant increase in credit risk (SICR)
In determining whether credit risk has increased significantly since initial recognition, the Company assesses past-due information.

Accordingly, based on instalment collection history, the management believes that a significant increase in credit risk arises only when the instalment is past due by more than 30 days. The management engages the recovery team for the purposes of collection of outstanding balance as the receivable is non-performing.

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

Stage 1: When IFRs are first recognised, the Company recognises an allowance based on 12-month ECLs. Stage 1 IFRs also include facilities where the credit risk has improved, and the IFR has been reclassified from Stage 2.

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

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

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL allowance. The Company considers a variety of external actual and forecast information and formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. The base case represents the most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

The Company has used GDP growth rate and inflation rate as their key macroeconomic factors giving equal weightages to each. These macro-economic factors have been updated based on the latest available information from the IMF.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (continued)

i) Credit risk (continued)

The Company has identified and documented aforementioned key drivers of credit risk and credit losses for the consumer portfolio and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The Company has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic indicators	Weightage	Forecast calendar years used in 2022 ECL model (in percentage)		
		2023	2024	2025
GDP growth rate	50%	3.6	2.7	2.7
Inflation rate	50%	2	2	2

The table below shows the change in economic indicators to the ECL computed under three different scenarios used by the Company.

Scenarios	Weightage	2022
Base case	40%	54,853
Upside	30%	50,275
Downside	30%	60,814

The average credit losses of IFRs with more than 40,000 customers with shared risk characteristics is a reasonable estimate of the probability weighted amount. Further, the Company has also considered different scenarios with the different weightage and concluded that the current level of provision is sufficient to cover the related credit risk in compliance with the requirements of IFRS 9.

Enhancements to ECL model

Until last year, loss rates were calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. PD term structures were based on the default probability calculated on forward flow rates of past thirty-six months.

During the current year, management has enhanced its model and determined PD using ‘observed default rate’ (‘ODR’) method which calculates distinct PDs for each segment by averaging number of defaulted customers at each successive monthly cohort till reporting date. These PDs are converted into forward looking PDs by considering probability weighted scenarios of selected MEVs stated above.

Measurement of ECL

The Company measures an ECL at an account level taking into account the PD, LGD, EAD and discount rate. PD estimates are estimated at a certain date, based on the term structures as stated above. LGD estimates for personal financing portfolio are derived from historical data of subsequent recoveries from defaulted facilities for each segment based on income of the obligors.

Due to lack of data for defaulted accounts and their subsequent recoveries for credit cards and unsecured portion of SME receivables, a proxy LGD rate for unsecured exposures is used. For SME customers, the portion of the IFRs secured against eligible collateral, a floor LG is considered after applying a haircut.

EAD represents the expected exposure in the event of a default. The Company derives EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD for personal financing and SME financing is its gross carrying amount while for credit cards, in addition to its gross carrying amount, a proxy rate for credit conversion factor is used. For discounting the Company has used each contract’s effective commission rate.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (continued)

i) Credit risk (continued)

Sensitivity of ECL allowance:
Changes in macro-economic factors, such that there is 10% increase in GDP with corresponding 10% decrease in inflation rates will result in SR 0.1 million decrease in ECL provision as at 31 December 2022. Likewise, changes in macro-economic factors, such that there is 10% decrease in GDP with corresponding 10% increase in inflation rates will result in SR 1.3 million increase in ECL provision as at 31 December 2022.

The increase or decrease of 10% change in loss rates (PDs and LGDs) assuming macro-economic factor remains the same will result SR 8.3 million increase or SR 7.8 million decrease in the ECL provision.

The Company's management believes that adequate provision has been made, where required to address the credit risk. Moreover, the Company in the ordinary course of providing finance receivables obtain additional personal guarantees for security to mitigate credit risk associated with IFR. For additional credit quality disclosure relating to IFR, please refer note 7 to these financial statements. The credit quality of non-performing IFRs is further detailed below:

Personal

31 December 2022	**Gross exposure**	**ECL allowance**	**Net exposure**
90 to 180 days	**41,584**	**(7,459)**	**34,125**
180 to 270 days	**26,361**	**(4,728)**	**21,633**
270 to 360 days	**21,908**	**(3,929)**	**17,979**
360 to 450 days	**19,556**	**(3,508)**	**16,048**
450 to 540 days	**18,114**	**(3,249)**	**14,865**
540 to 630 days	**20,589**	**(3,693)**	**16,896**
630 days & above	**30,888**	**(2,689)**	**28,199**
Total	**179,000**	**(29,255)**	**149,745**

31 December 2021	Gross exposure	ECL allowance	Net exposure
90 to 180 days	34,399	(4,704)	29,695
180 to 270 days	29,005	(7,426)	21,579
270 to 360 days	20,294	(6,750)	13,544
360 to 450 days	16,147	(6,681)	9,466
450 to 540 days	14,847	(7,508)	7,339
540 to 630 days	12,157	(6,785)	5,372
630 days & above	24,764	(7,571)	17,193
Total	151,613	(47,425)	104,188

SME

31 December 2022	**Gross exposure**	**ECL allowance**	**Net exposure**
90 to 180 days	**69,814**	**(4,118)**	**65,696**
180 to 270 days	**11,840**	**(593)**	**11,247**
270 to 360 days	**2,330**	**(669)**	**1,661**
450 to 540 days	**3,980**	**(200)**	**3,780**
630 days & above	**9,812**	**(502)**	**9,310**
Total	**97,776**	**(6,082)**	**91,694**

(All amounts in thousands of Saudi Riyals unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (continued)

i) Credit risk (continued)

31 December 2021	Gross exposure	ECL allowance	Net exposure
90 to 180 days	35,570	-	35,570
180 to 270 days	-	-	-
270 to 360 days	9,785	-	9,785
Total	45,355	-	45,355

Islamic credit cards

31 December 2022	**Gross exposure**	**ECL allowance**	**Net exposure**
90 to 180 days	**5,116**	**(1,285)**	**3,831**
180 to 270 days	**2,983**	**(750)**	**2,233**
270 to 360 days	**1,649**	**(415)**	**1,234**
Total	**9,748**	**(2,450)**	**7,298**

31 December 2021	Gross exposure	ECL allowance	Net exposure
90 to 180 days	2,488	(464)	2,024
180 to 270 days	1,616	(591)	1,025
270 to 360 days	930	(372)	558
Total	5,034	(1,427)	3,607

Other financial assets subject to ECL allowance

The Company believes that it has a low credit risk on other financial assets and the loss allowance is not assessed as material for the Company. A significant portion of cash and cash equivalents and other balances with banks are held with banks which have been assigned globally understood investment grade rating. Hence, currently the Company is not exposed to any significant credit risk. Other receivables are not significant and not exposed to significant credit risk.

The following table sets out information about the credit quality of balances with banks as of 31 December 2022 and 2021:

Credit quality	**Carrying amount as at 31 December**	
	2022	2021
Investment grade	**53,652**	157,871
Non-investment grade	**950**	-
Total	**54,602**	157,871

(All amounts in thousands of Saudi Riyals unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (continued)

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management manages assets with liquidity in mind, maintaining healthy balance of cash and cash equivalents and monitors future cash flows and liquidity on a daily basis. The Company also has revolving credit facilities from commercial banks that it can access to meet future liquidity needs.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Asset Liability Committee (ALCO). A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

a) Analysis of discounted assets and liabilities by expected maturity

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

2022	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and cash equivalents	**44,650**	**-**	**-**	**-**	**-**	**44,650**
Other balances with banks	**9,952**	**-**	**-**	**-**	**-**	**9,952**
Islamic financing receivables – net						
Personal	**178,800**	**263,635**	**923,998**	**589**	**-**	**1,367,022**
SME	**60,837**	**56,183**	**219,746**	**-**	**-**	**336,766**
Islamic credit cards	**44,719**	**-**	**-**	**-**	**-**	**44,719**
Other assets, net	**-**	**52,214**	**-**	**-**	**83,259**	**135,472**
Total assets	**338,958**	**372,031**	**1,143,744**	**589**	**83,259**	**1,938,581**
Liabilities						
Islamic bank financing	**67,107**	**164,551**	**321,661**	**-**	**-**	**553,319**
SAMA deposits	**3,914**	**7,926**	**-**	**-**	**-**	**11,840**
Lease liabilities	**-**	**444**	**144**	**-**	**-**	**588**
Provision for Zakat	**-**	**19,830**	**-**	**-**	**-**	**19,830**
Zakat payable	**-**	**5,360**	**-**	**-**	**-**	**5,360**
Other liabilities, net	**23,807**	**8,815**	**11,900**	**-**	**14,422**	**58,944**
Total liabilities	**94,828**	**206,926**	**333,705**	**-**	**14,422**	**649,881**
Liquidity surplus arising from financial instruments	**244,130**	**165,105**	**810,039**	**589**	**68,837**	**1,288,700**

(All amounts in thousands of Saudi Riyals unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (continued)

ii) Liquidity risk (continued)

2021	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and cash equivalents	59,123	-	-	-	-	59,123
Other balances with banks	98,748	-	-	-	-	98,748
Islamic financing receivables – net						
Personal	160,974	261,409	934,147	594	-	1,357,124
SME	24,083	26,139	143,934	-	-	194,156
Islamic credit cards	23,173	-	-	-	-	23,173
Other assets, net	-	43,287	-	-	91,936	135,223
Total assets	366,101	330,835	1,078,081	594	91,936	1,867,547
Liabilities						
Islamic bank financing	62,617	155,970	365,034	-	-	583,621
SAMA deposits	1,832	4,877	1,986	-	-	8,695
Lease liabilities	-	423	588	-	-	1,011
Provision for Zakat	-	25,970	-	-	-	25,970
Zakat payable	-	5,360	6,181	-	-	11,541
Other liabilities, net	20,786	6,929	11,439	-	5,312	44,466
Total liabilities	85,235	199,529	385,228	-	5,312	675,304
Liquidity surplus arising from financial instruments	280,866	131,306	692,853	594	86,624	1,192,243

Assets available to meet all of the liabilities include cash, other balances with banks, items in the course of collection; and IFRs to customers. In addition, the Company has unutilized limits from various banks amounting to SR 1.3 billion as at 31 December 2022 (31 December 2021: 1.3 billion).

b) Analysis of financial liabilities by remaining undiscounted contractual maturities

The amounts disclosed in the table are the contractual undiscounted cash flows. The Company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring financial position liquidity ratios against internal and external regulatory requirements and maintaining financing plans.

31 December 2022	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Financial liabilities - commission bearing				
Islamic bank financing	**77,114**	**189,160**	**356,118**	**622,392**
SAMA deposits	**3,972**	**8,264**	**-**	**12,236**
Lease liabilities	**-**	**461**	**144**	**605**
	81,086	**197,885**	**356,262**	**635,233**
Financial liabilities – non-commission bearing				
Accruals and other liabilities	**23,807**	**28,645**	**11,900**	**64,352**
Zakat payable	**-**	**5,771**	**-**	**5,771**
	23,807	**34,416**	**11,900**	**70,123**

31 December 2021	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial liabilities - commission bearing				
Islamic bank financing	71,980	143,175	391,402	606,557
SAMA deposits	-	4,723	3,972	8,695
Lease liabilities	-	-	1,065	1,065
	71,980	147,898	396,439	616,317
Financial liabilities – non-commission bearing				
Accruals and other liabilities	26,537	27,148	5,312	58,997
Zakat payable	-	5,771	5,770	11,541
	26,537	32,919	11,082	70,538

(All amounts in thousands of Saudi Riyals unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (continued)

ii) Liquidity risk (continued)

Reconciliation of movement of liabilities to cash flows arising from financing activities

	Liabilities			**Equity**			
	Islamic bank financing	**SAMA deposits**	**Lease liabilities**	**Share capital**	**Statutory reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2021	653,959	7,395	3,452	1,000,000	60,290	59,085	1,784,181
Changes from financing cash flows							
Proceeds from Islamic bank financing	340,524	-	-	-	-	-	340,524
Repayment of Islamic bank financing	(410,862)	-	-	-	-	-	(410,862)
Net change in lease liabilities	-		(2,441)	-	-	-	(2,441)
Proceeds from SAMA deposits	-	6,970	-	-	-	-	6,970
Repayment of SAMA deposits	-	(5,670)	-	-	-	-	(5,670)
Dividend paid	-	-	-	-	-	(152,220)	(152,220)
Other movements	-	-	-	-	22,509	202,579	225,088
Balance as at 31 December 2021	**583,621**	**8,695**	**1,011**	**1,000,000**	**82,799**	**109,444**	**1,785,570**
Changes from financing cash flows							
Proceeds from Islamic bank financing	**263,850**	-	-	-	-	-	**272,264**
Repayment of Islamic bank financing	**(294,152)**	-	-	-	-	-	**(299,421)**
Net change in lease liabilities	-	-	**(423)**	-	-	-	**(423)**
Proceeds from SAMA deposits	-	**8,414**	-	-	-	-	**8,809**
Repayment of SAMA deposits	-	**(5,269)**	-	-	-	-	**(5,268)**
Dividend paid	-	-	-	-	-	**(75,000)**	**(75,000)**
Other movements	-	-	-	-	**17,146**	**154,311**	**173,656**
Balance as at 31 December 2022	**553,319**	**11,840**	**588**	**1,000,000**	**99,945**	**188,755**	**1,854,447**

iii. Market Risk

a) Commission rate risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments. The risk arises when there is a mismatch in the assets and liabilities, which are subject to commission rate adjustment within a specified year. The Company's exposure to such risk arises mainly from Islamic bank financing as a significant portion of commission earning financial assets are at fixed rates and are carried in the financial statements at amortised cost.

Islamic bank financing of SR 553.3 million as at 31 December 2022 (2021: SR 583.6 million) is based on floating rates and not subject to commission rate swap and thus, a 100 basis points change in commission rates could have approximately a SR 5.1 million (2021: SR 5.2 million) annual effect on the Company's profitability.

The Company's Risk Management Committee monitors the fluctuations in commission rates on regular basis and take appropriate measures to minimize the commission rate risk by adjusting lending rate for future contracts.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (continued)

iii. Market Risk (continued)

b) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Company has no exposure to foreign currency risk as it mainly deals in Saudi Arabian Riyals which is also the functional currency of the Company.

c) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company is not exposed to significant price risk as it does not have any material financial instrument whose prices are fluctuated based on internal or external factors as mentioned above.

28. OPERATING SEGMENTS

Operating segments are identified based on internal reports about components of the Company that are regularly reviewed by the Company's Board of Directors in its function as the Chief Operating Decision Maker to allocate resources to segments and to assess their performance. Performance of each segment is measured based on return from respective portfolio, as management believes that this indicator is the most relevant in evaluating the results of segments.

The Company's reportable segments are as follows:

1) **Personal financing:** These relate to personal financing provided to retail segment.

2) **SME financing:** These relate to financing provided to SMEs and HNWIs.

3) **Islamic credit cards:** These relate to Islamic credit cards provided to retail customers.

The segment wise breakup of assets and liabilities is as follows:

As at 31 December 2022

	Personal	**SME**	**Islamic credit cards**	**Total**
Total assets	**1,367,022**	**336,766**	**44,719**	**1,748,507**
Total liabilities	**519,446**	**118,065**	**1,638**	**639,149**

As at 31 December 2021

	Personal	SME	Islamic credit cards	Total
Total assets	1,357,124	194,156	23,173	1,574,453
Total liabilities	583,402	77,052	14,250	674,704

28.1 Reconciliation of reportable segment assets and liabilities to statement of financial position

	As at 31 December	
	2022	2021
Total assets for reportable segments	**1,748,507**	1,574,453
Other unallocated amounts	**190,074**	293,094
Total assets as per statement of financial position	**1,938,581**	1,867,547
Total liabilities for reportable segments	**639,149**	674,704
Other unallocated amounts	**10,733**	600
Total liabilities as per statement of financial position	**649,881**	675,304

(All amounts in thousands of Saudi Riyals unless otherwise stated)

28. OPERATING SEGMENTS (continued)

The segment wise breakup of income and expenses is as follows:

For the year ended 31 December 2022

	Personal	**SME**	**Islamic credit cards**	**Total**
Total income	**341,384**	**39,891**	**10,766**	**392,041**
Total expenses	**74,282**	**11,130**	**5,337**	**90,749**
Net income before Zakat	**267,102**	**28,761**	**5,429**	**301,292**

For the year ended 31 December 2021

	Personal	SME	Islamic credit cards	Total
Total income	364,301	23,651	2,903	390,855
Total expenses	41,386	4,931	3,343	49,660
Net income / (loss) before Zakat	322,915	18,720	(440)	341,195

28.2 Reconciliation of reportable segment income and expense to statement of comprehensive income

	For the year ended 31 December	
	2022	2021
Total income for reportable segments	**392,041**	390,855
Other unallocated amounts	**292**	1,491
Total income as per financial statements	**392,333**	392,346
Total expense for reportable segments	**90,749**	49,660
Other unallocated amounts	**110,430**	92,098
Total expense as per financial statements	**201,179**	141,758

29. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, maintain healthy capital ratios in order to support its business and to provide an optimal return to its shareholders.

The Board of Directors seek to maintain a balance between the higher returns that might be possible with higher levels of Islamic bank financing and the advantages and security afforded by a sound capital position. The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements which requires to maintain aggregate financing to capital ratio up to three times.

	As at 31 December	
	2022	2021
Aggregate financing to equity ratio (Islamic financing receivables divided by total equity)	**1.36 times**	1.32 times

30. RECLASSIFICATION OF COMPARATIVES

Certain reclassification adjustments have been made in the financial statements for better presentation and have no impact on the statement of profit or loss and other comprehensive income. The details are as follows:

Account title		**Amount**
From	**To**	
Investment property*	Assets held for sale	18,661
Other balances with banks	Prepayments and other assets	34,500
Prepayments and other assets	Other balances with banks	210

*During the year, investment property was reclassified to assets held for sale as it met the criteria for classification as non-current assets held for sale as per IFRS 5 ‘Non-current assets Held for Sale and Discontinued Operations’.

31. SUBSEQUENT EVENTS

There were no events subsequent to the statement of financial position date which required adjustments to or disclosure in these financial statements.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved and authorised for issue by the Board of Directors of the Company on 15 February 2023.