AMLAK INTERNATIONAL FINANCE COMPANY
(Formerly Amlak International for Real Estate Finance Company)
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2022
together with the
INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of Amlak International Finance Company (formerly Amlak International for Real Estate Finance Company)

Report on the audit of the consolidated financial statements

Our opinion

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

What we have audited
The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), endorsed in the Kingdom of Saudi Arabia (the "Code"), that is relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements.

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Our audit approach

Overview

Key Audit Matter	Expected credit loss allowance against Murabaha, Ijara and Ijara mawsofa fi athema receivables

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Expected credit loss allowance against Murabaha, Ijara and Ijara mawsofa fi athema receivables As at 31 December 2022, the gross murabaha, ijara and ijara mawsofa fi athema receivables before impairment were SAR 480.7 million, SAR 2,788.6 million and SAR 89.6 million respectively, against which the Group maintained an expected credit loss ("ECL") allowance of SAR 0.5 million, SAR 75.08 million and SAR 0.025 million respectively. We considered this as a key audit matter, as the determination of ECL involves significant	• We obtained and updated our understanding of management's assessment of ECL allowance against murabaha, ijara and ijara mawsofa fi athema receivables including the Group's internal rating model, accounting policy, model methodology including any key changes made during the year. • We compared the Group'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 the key

Key audit matter	How our audit addressed the Key audit matter
estimation and management judgement and this has a material impact on the consolidated financial statements of the Group. The key areas of judgment 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 / defaulted exposures. The Group has applied additional judgements to identify and estimate the likelihood of borrowers that may have experienced SICR due to the current economic outlook. 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 financial condition of the counterparties, expected future cash flows, developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probability weightages. 3. The need to apply post 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 results in greater estimation uncertainty and the associated audit risk around ECL calculation as at 31 December 2022.* *Refer to the significant accounting policies note 3(g) for the impairment of financial assets;*	controls (including relevant "IT" general and application controls) over: ▪ the ECL model, including governance over the model, and any model updates performed during the period, including approval of the respective oversight committee of key inputs, assumptions and post model adjustments; ▪ the classification of financing into stages 1, 2 and 3 and timely identification of SICR and the determination of defaulted / individually impaired exposures; and ▪ the integrity of data inputs into the ECL model. • For a sample of customers, we assessed: ▪ the internal ratings determined by management based on the Group's internal rating model and considered these assigned ratings in light of Company's ECL methodology and available industry information. We also assessed that these were consistent with the ratings used as input in the ECL model; and ▪ management's computations for ECL. • For selected customers, we assessed management's assessment of recoverable cash flows, including the impact of collateral, and other sources of repayment, if any. • We assessed the appropriateness of the Group's criteria for the determination of SICR and identification of "defaulted" 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 Group's financing portfolio.

Key audit matter	How our audit addressed the Key audit matter
note 2(d)(i) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Company; note 24(1) which contains the disclosure of impairment against these receivables, credit quality analysis and key assumptions and factors considered in determination of ECL.	• We assessed the governance process implemented and the qualitative factors considered by the Group when applying any overlays, or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise. • We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios. • We tested the completeness and accuracy of data supporting the ECL calculations as at 31 December 2022. • Where required, we involved our experts to assist us in auditing model calculations, evaluating interrelated inputs (including EADs, PDs and LGDs) and assessing reasonableness of assumptions used in the ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions used in post model overlays. • We assessed the adequacy of disclosures in the consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the Group's 2022 Annual Report but does not include the consolidated financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

Independent auditor's report to the shareholders of Amlak International Finance Company (formerly Amlak International for Real Estate Finance Company) (continued)

Other information (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Group's 2022 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, the management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

Independent auditor's report to the shareholders of Amlak International Finance Company (formerly Amlak International for Real Estate Finance Company) (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 consolidated 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.

PricewaterhouseCoopers

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LICENSE NO.25
C.R.1010371622

Date: 26 February 2023

AMLAK INTERNATIONAL FINANCE COMPANY
(Formerly Amlak International for Real Estate Finance Company)
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2022
(SR '000)

	Notes	**2022**	2021
ASSETS			
Cash and cash equivalents	*4*	**38,226**	8,818
Investments	*5*	**998**	9,878
Positive fair value of derivatives	*12*	**20,515**	-
Murabaha receivables, net	*6*	**480,193**	143,573
Ijara receivables, net	*7*	**2,713,499**	3,181,997
Ijara mawsofa fi athemmah receivables, net	*8*	**89,558**	83,129
Prepayments and other assets	*9*	**102,727**	93,838
Property, equipment and right of use assets, net	*10*	**41,422**	46,238
Total assets		**3,487,138**	3,567,471
LIABILITIES AND EQUITY			
Account payables and other accruals	*11*	**99,857**	73,614
Negative fair value of derivatives	*12*	**1,483**	4,253
Zakat and income tax payable	*13*	**19,599**	25,272
Borrowings	*14*	**1,759,216**	2,039,876
SAMA deposit, net	*29*	**355,863**	217,592
Employees' end of service benefits	*15*	**16,122**	15,843
Total liabilities		**2,252,140**	2,376,450
Share capital	*16*	**906,000**	906,000
Statutory reserve	*17*	**98,753**	89,081
Cash flow hedge reserve	*12*	**19,032**	(4,253)
Retained earnings		**211,213**	200,193
Total equity		**1,234,998**	1,191,021
Total liabilities and equity		**3,487,138**	3,567,471

Murad AlSadiq	Adnan Al Shubaily	Abdullah Al Howaish
Chief Finance Officer	CEO	Chairman

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements

AMLAK INTERNATIONAL FINANCE COMPANY
(Formerly Amlak International for Real Estate Finance Company)
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2022
(SR '000)

	Notes	**2022**	2021
INCOME			
Income from Murabaha contracts		**23,470**	12,743
Income from Ijara contracts		**229,071**	240,741
Income from Ijara mawsofa fi athemmah contracts		**7,934**	7,949
Gain on sale of portfolio and revaluation of servicing rights asset		**11,959**	1,625
Fees and commission income		**19,031**	21,399
Total income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah		**291,465**	284,457
EXPENSES			
Finance cost		**(70,390)**	(54,219)
Fee expense		**(1,550)**	(1,838)
Net income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah		**219,525**	228,400
Other operating income			
Other income		**4,730**	3,733
		224,255	232,133
Operating expenses			
Depreciation	*10*	**(9,348)**	(8,788)
General and administrative expenses	*21*	**(90,299)**	(88,238)
Selling and marketing expenses	*22*	**(11,273)**	(13,555)
Impairment (charge) / reversal for expected credit losses, net		**(2,402)**	1,783
Net income for the year before zakat and income tax		**110,933**	123,335
Zakat and income tax expense	*13(a)*	**(14,211)**	(15,582)
Net income for the year		**96,722**	107,753
Basic and diluted earnings per share (SR)	*19*	**1.07**	1.19

Murad AlSadiq
Chief Finance Officer

Adnan Al Shubaily
CEO

Abdullah Al Howaish
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AMLAK INTERNATIONAL FINANCE COMPANY
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022
(SR '000)

	Note	**2022**	2021
Net income for the year		**96,722**	107,753
Other comprehensive income			
Items that may be reclassified to consolidated statement of profit or loss in subsequent years:			
Net change in fair value of cash flow hedges		**23,285**	7,002
Items that will not to be reclassified to consolidated statement of profit or loss in subsequent years:			
Remeasurement gain on defined benefit plan	*15*	**980**	320
Total other comprehensive income		**24,265**	7,322
Total comprehensive income for the year		**120,987**	115,075

Murad AlSadiq
Chief Finance Officer

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CEO

Abdullah Al Howaish
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AMLAK INTERNATIONAL FINANCE COMPANY
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(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022
(SR '000)

	Share capital	Statutory reserve	Cash flow hedge reserve	Retained earnings	Total
For the year ended 31 December 2022					
Balance at 1 January 2022	**906,000**	**89,081**	**(4,253)**	**200,193**	**1,191,021**
Net income for the year	-	-	-	**96,722**	**96,722**
Other comprehensive income	-	-	**23,285**	**980**	**24,265**
Total comprehensive income	-	-	**23,285**	**97,702**	**120,987**
Transfer to statutory reserve	-	**9,672**	-	**(9,672)**	-
Dividend (note 18)	-	-	-	**(77,010)**	**(77,010)**
Balance at 31 December 2022	**906,000**	**98,753**	**19,032**	**211,213**	**1,234,998**
For the year ended 31 December 2021					
Balance at 1 January 2021	906,000	78,306	(11,255)	175,376	1,148,427
Net income for the year	-	-	-	107,753	107,753
Other comprehensive income	-	-	7,002	320	7,322
Total comprehensive income	-	-	7,002	108,073	115,075
Transfer to statutory reserve	-	10,775	-	(10,775)	-
Dividend (note 18)	-	-	-	(72,481)	(72,481)
Balance at 31 December 2021	906,000	89,081	(4,253)	200,193	1,191,021

Murad AlSadiq
Chief Finance Officer

Adnan Al Shubaily
CEO

Abdullah Al Howaish
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AMLAK INTERNATIONAL FINANCE COMPANY
(Formerly Amlak International for Real Estate Finance Company)
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2022
(SR '000)

	Notes	2022	2021
Cash flows from operating activities:			
Net income for the year before zakat and income tax		**110,933**	123,335
Non-cash adjustment to reconcile net income before zakat and income tax for the year to net cash used in operating activities			
Depreciation	*10*	**9,348**	8,788
Finance cost		**67,443**	54,432
Employees' end of service benefits	*15*	**2,640**	2,497
Impairment allowance for expected credit losses, net		**(13,583)**	(1,783)
Write-off expense		**15,985**	-
(Gain) / loss on sale of portfolio		**(11,959)**	594
Modification loss on Murabaha and Ijara receivables, net		**(1,345)**	(2,990)
Modification gain on borrowings, net		**-**	888
Gain on SAMA deposit, net	*29*	**2,947**	(1,101)
Loss / (gain) on sale of property and equipment		**205**	(2,625)
Other (income) / loss		**(404)**	90
		182,210	182,125
(Increase) / decrease in operating assets			
Murabaha receivables		**(352,270)**	(5,863)
Ijara receivables		**494,951**	(45,560)
Ijara Mawsofa Fi Athemmah receivables		**(6,328)**	(832)
Prepayments and other assets		**(8,889)**	37,516
Increase / (decrease) in operating liabilities			
Account payables and other accruals		**28,335**	(50,600)
		338,009	116,786
Finance cost paid	*14*	**(66,037)**	(52,322)
Employees' end of service benefits paid	*15*	**(1,382)**	(1,926)
Zakat and income tax paid	*13*	**(20,267)**	(22,315)
Net cash generated from operating activities		**250,323**	40,223
Cash flows from investing activities			
Purchase of property and equipment	*10*	**(4,737)**	(5,953)
Sale of property and equipment		**-**	16,275
Receipts from disposal of Investments		**9,480**	-
Net cash generated from investing activities		**4,743**	10,322
Cash flows from financing activities			
Repayment of borrowings	*14*	**(1,546,168)**	(1,726,747)
Proceeds from borrowings	*14*	**1,265,000**	1,669,500
SAMA deposit received		**264,390**	204,973
SAMA deposit paid		**(129,066)**	(138,461)
Dividend paid	*18*	**(77,010)**	(72,481)
Payment of lease liabilities		**(2,804)**	(3,562)
Net cash used in financing activities		**(225,658)**	(66,778)
Net change in cash and cash equivalents		**29,408**	(16,233)
Cash and cash equivalents at the beginning of the year	*4*	**8,818**	25,051
Cash and cash equivalents at the end of the year	*4*	**38,226**	8,818
Non-cash supplemental information:			
Net changes in fair value of cash flow hedge		**23,285**	7,002

Murad AlSadiq
Chief Finance Officer

Adnan Al Shubaily
CEO

Abdullah Al Howaish
Chairman

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements

1 THE GROUP AND THE NATURE OF OPERATIONS

Amlak International Finance Company (formerly Amlak International for Real Estate Finance Company) ("Amlak" or the "Company") is a Saudi Joint Stock Company established and registered in the Kingdom of Saudi Arabia under commercial registration number 1010234356 in Riyadh dated 27/05/1428H (corresponding to 13/06/2007G) and Ministry of Commerce Resolution No. 132/S dated 25/05/1428H (corresponding to 11/06/2007G) Saudi Central Bank "SAMA" License No. 2/ PU/201312 dated 21/02/1435H (corresponding to 24/12/2013G). The Company operates through branches in Riyadh, Jeddah and Khobar. With effect from 22 December 2022, the name of the Company was changed from Amlak International for Real Estate Finance Company to Amlak International Finance Company.

As per the revised commercial registration certificate of the Company dated 28 Jamada Al Awwal 1444 H (corresponding to 22 Dec 2022), the objectives of the Company have been updated to provide real estate financing, SMEs financing, and personal financing as per SAMA approval dated 20 Rabea Awwal 1444H (corresponding to 16 Oct 2022).

The registered office of the Company is located at Thumamah Road Riyadh, Kingdom of Saudi Arabia. A Corporate Office has been established in Jeddah by the Company in 2019. The Company has the following branches in the Kingdom of Saudi Arabia:

Branch Commercial Registration Number	Date of issuance	Location
2050057816	30/12/1428	Khobar
4030171680	24/07/1428	Jeddah

The Company has the following subsidiary:

Name of the subsidiary	Registration Number	Country of incorporation	Ownership	Principal business activity
Amlak International For Real Estate Development Company	1010317413	Saudi Arabia	100%	Hold titles of real estate properties financed by Amlak International Finance Company

These consolidated financial statements comprise the financial statements of the Company and Amlak International for Real Estate Development Company together here in after referred to as the Group. The Company started consolidating its subsidiary from year ended 31 December 2022. The impact of consolidation on the comparative numbers is not material.

2 BASIS OF PREPARATION

(a) Statement of compliance

The consolidation financial statements of the Company are prepared:

i. in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA); and
ii. in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

(b) Basis of measurement

These consolidated financial statements have been prepared on a going concern basis under the historical cost convention except for the measurement of investments and derivatives, which are carried at fair value. Further, employees' end of service benefits are measured at present value of future obligations using the Projected Unit Credit Method.

2 BASIS OF PREPARATION (CONTINUED)

(c) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SR), as it is the functional currency of the Group. All financial information presented has been rounded-off to the SR in thousand unless otherwise stated.

(d) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group’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. Impairment of financial assets

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 and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group’s Expected Credit Loss (“ECL”) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group’s internal credit grading, which assigns probability of defaults (PDs) to corporate and high net worth customers;
- The Group’s criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as oil prices and collateral values, and the effect on PDs, exposure at default (EAD) and loss given defaults (LGD); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

ii. Servicing rights under agency agreements

An intangible asset is recognised for servicing rights under agency arrangements (acquired by the Group pursuant to sale of originated Ijara contracts to third parties or as consideration for financing arrangements services) at the present value of net future cash flows under the agency arrangements. The net present value computation encompasses among others, estimates in respect of discount rate and fair value of services. For assumptions involved in the calculation of servicing rights under agency arrangements refer note 20.

2. BASIS OF PREPARATION (CONTINUED)

(d) Critical Accounting Judgements, Estimates And Assumptions (Continued)

iii. Going concern

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

iv. Fair value measurement - refer note 3 and 25

v. Employees' end of service benefits – refer note 15

(e) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and the financial statements of the subsidiary, as stated in note 1. The financial statements of the subsidiary is prepared for the same reporting period as that of the Group, using consistent accounting policies. Adjustments have been made to the consolidated financial statements of the subsidiary, where necessary, to align with the Group's consolidated financial statements.

Subsidiary is the investee that is controlled by the Group. The Group controls an investee only when it has:
• Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
• Exposure, or rights, to variable returns from its involvement with the investee; and
• The ability to use its power over the investee to affect amount of its returns.

When the Group has less than a majority of the voting or similar rights of an investee entity, it considers relevant facts and circumstances in assessing whether it has power over an investee entity, including:
• The contractual arrangement with the other voters of the investee entity;
• Rights arising from other contractual arrangements; and
• The Group's current and potential voting rights granted by equity instruments such as shares.

The Group re-assesses whether or not it controls an investee entity if facts and circumstances indicate that there are changes to one or more elements of control. Subsidiaries are consolidated from the date on which the control is transferred to the Group and cease to be consolidated from the date on which the control is transferred from the Group. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

• Derecognises the assets (including goodwill) and liabilities of the subsidiary;
• Derecognises the carrying amount of any non-controlling interests;
• Derecognises the cumulative translation differences recorded in equity;
• Recognises the fair value of the consideration received;
• Recognises the fair value of any investment retained;
• Recognises any surplus or deficit in the consolidated statement of income; and
• Reclassifies the Group's share of components previously recognised in other comprehensive income to the consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Intra-group balances and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the interim consolidated financial statements. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2021 except for the consolidation of subsidiary as explained in notes 1 and note 2(e) to the consolidated financial statements. 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.

New standards, interpretations and amendments adopted by the Group

Following standard, interpretation or amendment are effective from the current year and are adopted by the Group, however, these do not have any impact on the consolidated financial statements of the Group:

Standard, interpretation, 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’* update 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 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Accounting standards issued but not yet effective

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Group's accounting year beginning after 1 January 2021 are listed below. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements.

Standard, interpretation, amendments	**Description**	**Effective date**
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 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 noncurrent, 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 change to this amendment.	Deferred until accounting periods starting not earlier than 1 January 2024
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.
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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment, if any. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvement/assets or the term of the lease. Expenditure for repair and maintenance are charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalised. The estimated useful lives of the principal classes of assets are as follows:

	Years
Leasehold improvements	Shorter of 10 years or lease term
Furniture and fixtures	6
Office equipment	5
Information technology equipment	3 to 5 years
Software	3 years

d) Murabaha receivables

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

e) Ijara receivables

Ijara receivables represent assets transferred under finance lease under Islamic lease agreement and the present value of the lease payments is recognised as a receivable and disclosed under "Ijara receivables". The difference between the gross receivables and the present value of the receivables is recognised as unearned Ijara income. Ijara income is recognised over the term of the Ijara using the net investment method, which reflects a constant periodic rate of return.

f) Ijara mawsofa fi athemmah receivables

Ijara mawsofa fi athemmah is an agreement where in gross amounts due under Ijara includes the total of future lease payments, plus estimated residual amounts (lease contract receivable). The difference between the lease contracts receivable and the cost of the leased assets is recorded as unearned Ijara mawsofa fi athemmah income. Ijara mawsofa fi athemmah income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

g) Impairment

The Group recognizes impairment allowance for ECL on the following financial instruments:

- Murabaha receivables;
- Ijara receivables; and
- Ijara Mawsofa Fi Athemmah receivables.

No impairment loss is recognized on equity investments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Impairment (continued)

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

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

Credit-impaired Murabaha receivables, Ijara receivables and Ijara mawsofa fi athemmah receivables
At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. 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 borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or lease by the Group on terms that the Group would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

A loan or lease that has been renegotiated due to deterioration in the borrower'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 loan or lease that is overdue for 90 days or more is considered impaired.

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

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

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

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 borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are 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 profit rate of the existing financial assets.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Impairment (continued)

Presentation of allowance for ECL in the consolidated statement of financial position
Impairment allowances for ECL of financial assets measured at amortised cost are presented in the consolidated statement of financial position as a deduction from the gross carrying amount of the assets.

Write-off
Murabaha receivables, Ijara receivables and Ijara Mawsofa Fi Athemmah receivables are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group'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 Group seeks to use collateral, where possible. The collateral comes in various forms, such as financial guarantees and real estate. Collateral, unless repossessed, is not recorded on the Group consolidated 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. Other non-tangible collateral are not considered while calculating the ECL.

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

Collateral repossessed
The Group policy is to sell the repossessed asset. The repossessed asset is classified as held for sale at the fair value less cost to sell for non-financial assets at the repossession date.

h) Financial instruments

All financial assets and financial liabilities are initially recognized on the trade date i.e. the date which the Group becomes party to the contractual provisions of the instrument. Financial assets comprises cash and cash equivalents, investments, Murabaha receivables, Ijara receivables, Ijara Mawsofa Fi Athemmah receivable, derivative and other receivables. Financial liabilities comprises borrowings, derivatives, accounts and other payables and other liabilities.

Classification of financial assets
On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Financial asset at amortised cost
A debt financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Financial asset at FVOCI
Debt instrument: A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit and foreign exchange gains and losses are recognised in profit or loss.

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

Financial asset at FVTPL
All other financial assets are classified as measured at FVTPL.

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

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

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group 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 Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group'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 profit rates.

Classification of financial liabilities
The Group classifies its financial liabilities, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium to issue the funds, and other cost that are integral part of the effective profit rate.

Derecognition

Financial assets
The Group 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 Group 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 profit or loss.

In transactions in which the Group 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 Group 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.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Group 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 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 Group 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 profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as profit.

Financial Liabilities
The Group 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 profit or loss.

Offsetting of financial instruments
Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when the entity has a legal currently enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the consolidated statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments to hedge its exposure to commission rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried 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 consolidated statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in equity.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group 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 entity will assess whether the hedging relationship meets the hedge effectiveness which covers that there is an economic relationship between the hedged item and hedging and credit risk does not dominate the value changes that result from the economic relationship. Management assess whether the hedging relationship meets the effectiveness criteria at the inception of the hedging relationship, on an ongoing basis at each reporting date and upon a significant change in the circumstances effecting the hedge requirements. The assessment relates to expectations about hedge ineffectiveness and offsetting and therefore is only forward looking.

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 consolidated statement of profit or loss for the period.

i) Income / expenses recognition

Income and expenses
Income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah contracts and borrowing costs are recognized in profit or loss using the effective profit rate method. The 'effective profit rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or the amortized cost of the financial instrument.

When calculating the effective profit rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective profit rate is calculated using estimated future cash flows including expected credit losses.

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

Measurement of amortized cost and 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 profit rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating profit, the effective profit 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.

However, for financial assets that have become credit-impaired subsequent to initial recognition, profit is calculated by applying the effective profit rate to the net carrying amount (amortised cost less ECL) of the financial asset. If the asset is no longer credit-impaired, then the calculation of profit reverts to the gross basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Income / expenses recognition (Continued)

Measurement of amortized cost and income (Continued)

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

k) Accrued expenses and other current liabilities

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

l) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

m) Zakat and income tax

The Group's Saudi and GCC shareholders are subject to zakat and non-Saudi shareholders are subject to income tax in accordance with the regulations of the Zakat, Tax and Custom Authority ("ZATCA"), as applicable in the Kingdom of Saudi Arabia.

n) Employees' termination benefits

The Group operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the Saudi Labor Law of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements for actuarial gains and losses are recognised immediately in the consolidated statement of financial position with a corresponding credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service cost are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Group recognises related restructuring costs

Interest cost is calculated by applying the discount rate to the net defined benefit liability. The Group recognises the following changes in the net defined benefit obligation in the consolidated statement of income of profit or loss:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements (under general and administrative expenses)
- Net special commission expense or income (under borrowing facility cost and charges)

o) Expenses

Selling and marketing expenses are those that specifically relate to salesmen and marketing expenses. All other expenses are classified as general and administrative expenses.

p) Fee and commission income and expense

Fee income and expense that are integral part to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission income is recognised as the related services are performed including servicing income. Other fee expense relate mainly to transaction and services fee, which are expensed as the services are received.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Finance cost

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

r) Statutory reserve

As required by Saudi Arabian Regulations for Companies and the Company's By-laws, 10% of the net income for the year (after zakat and after deducting losses brought forward) should be transferred to the statutory reserve. This reserve is not available for distribution. As per the By-laws, the Group may resolve to discontinue such transfers when the reserve totals 30% of the share capital.

s) Fair value measurement

The Group measures certain financial instruments, such as, derivatives and equity instruments at fair value at each consolidated statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 25.

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

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

The principal or the most advantageous market must be accessible to by the Group. 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 Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Fair value measurement (continued)

At each reporting date, management of the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

t) Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of profit or loss. The gains or losses on foreign currency transactions are included in the consolidated statement of profit or loss during the year.

u) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (a business segment), which is subject to risks and rewards that are different from those of other segments.

v) Other real estate asset

The Group acquires certain real estate against settlement of joint ventures and Murabaha, Ijara and Ijara Mowsofa Fi Athemmah receivable balances. Such real estates are considered as assets held for sale and are initially stated at the lower of net realisable value of due receivable balances or the joint ventures and the current fair value of related properties, less any costs to sell.

w) Value added tax ("VAT")

The Group collects VAT from its customers for qualifying services provided, and make VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the ZATCA representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Group and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

x) Government grant

The Group recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Group will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of interest is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. Government grant is recognised in consolidated statement of profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grant is intended to compensate. The grant income is only recognised when the ultimate beneficiary is the Group. Where the customer is the ultimate beneficiary, the Group only records the respective receivable and payable amounts.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

y) Accounting for leases

On initial recognition at inception of the contract, the Group 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. Control is identified if most of the benefits are flowing to the Group and the Group can direct the usage of such assets.

Right of use assets

The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurement of the lease liability.

Generally, right of use assets would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the right of use assets' value.

The right-of-use 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 right-of-use assets are determined on the same basis as those of property and equipment.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Group's incremental borrowing rate.

After the commencement date, Group measures the lease liability by:

1. Increasing the carrying amount to reflect interest 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 interest 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 Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group 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 right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(SR'000)

4 CASH AND CASH EQUIVALENTS

	2022	2021
Cash in hand	**35**	30
Cash at bank – current accounts (note 4.1)	**38,191**	8,788
	38,226	8,818

4.1 Bank balances are with counterparties that have investment grade credit ratings, i.e. 'BBB' or higher by Standard and Poor's or Moody's.

5 INVESTMENTS

	2022	2021
Investment at FVTPL	**105**	8,985
Investment at FVOCI	**893**	893
	988	9,878

The movement in cost and unrealized loss of the investment at FVTPL during the years ended 31 December was as follows:

	2022	2021
Cost at the beginning and end of the year	**12,000**	12,000
Unrealised (loss) / gain:		
At beginning of the year	**(3,015)**	(2,397)
Change in fair value, net	**600**	(618)
At end of the year	**(2,415)**	(3,015)
Disposal of investment during the year	**(9,480)**	-
Net carrying amount	**105**	8,985

6 MURABAHA RECEIVABLES, NET

	2022	2021
Gross Murabaha receivables	**603,390**	174,726
Less: Unearned income	**(122,682)**	(30,303)
	480,708	144,423
Less: Impairment allowance for credit losses	**(515)**	(850)
Murabaha receivables, net	**480,193**	143,573

6.1 The ageing of past due but not impaired Murabaha receivables was as follows:

	2022	2021
Days past due:		
1 – 30	**-**	-
31 – 60	**8,484**	10,309
61 –90	**32,893**	36,903
Total	**41,377**	47,211

The fair value of collaterals, based on latest independent appraisals, held against impaired Murabaha receivables as at 31 December 2022 was SR 5.6 million (2021: SR 5.4 million).

(SR'000)

6 MURABAHA RECEIVABLES, NET (CONTINUED)

6.2 The maturity profile of gross murabaha receivables as at 31 December was as follows:

	2022	2021
Not later than one year	**44,730**	39,774
Later than one year but not later than five years	**397,517**	101,987
Later than five years	**38,460**	2,662
Total	**480,708**	144,423

6.3 The table below stratifies credit exposures from Murabaha receivables into ranges of receivables to value ratio. Murabaha receivables to value ratio are calculated by dividing the gross amount of the financing with the fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes any impairment allowance.

	2022	2021
Less than 50%	**160,998**	67,939
51-70%	**218,965**	39,582
71-85%	**100,745**	36,903
Total exposure	**480,708**	144,423

6.4 The table below stratifies credit exposures from Murabaha receivables into corporate, High Net Worth Individuals (HNWI) and retail segments.

2022

	Corporate	**HNWI**	**Retail**	**Total**
Gross Murabaha receivables	**305,234**	**297,333**	**823**	**603,389**
Less: Unearned income	**(62,283)**	**(60,199)**	**(200)**	**(122,681)**
	242,951	**237,134**	**623**	**480,708**
Less: Impairment allowance for credit losses	**(32)**	**(484)**	**-**	**(515)**
Murabaha receivables, net	**242,919**	**236,650**	**623**	**480,193**

2021

	Corporate	**HNWI**	**Retail**	**Total**
Gross Murabaha receivables	85,721	87,928	1,078	174,726
Less: Unearned income	(14,591)	(15,442)	(270)	(30,303)
	71,130	72,486	807	144,423
Less: Impairment allowance for credit losses	(232)	(618)	(1)	(850)
Murabaha receivables, net	70,898	71,868	806	143,753

(SR'000)

7 IJARA RECEIVABLES, NET

	2022	2021
Gross investment in Ijara receivables	**3,707,939**	4,294,125
Less: Unearned income	**(919,360)**	(1,023,899)
Net investment in Ijara receivables	**2,788,579**	3,270,226
Less: Impairment allowance for credit losses	**(75,080)**	(88,229)
Ijara receivables, net	**2,713,499**	3,181,997

During the year, the Group has written-off receivables amounting to SR 15.9 million (31 December 2021: SR 2.8 million).

7.1 The ageing of past due but not impaired Ijara receivables are as follows:

Days past due:	2022	2021
1 – 30	**495,619**	102,647
31 – 60	**35,092**	30,406
61 –90	**84,625**	43,771
Total	**615,336**	176,824

The fair value of collaterals, based on latest independent appraisals, held against impaired Ijara receivables as at 31 December 2022 was SR 264.07 million (2021: SR 397.90 million).

(SR'000)

7 IJARA RECEIVABLES, NET (CONTINUED)

7.2 The maturity profile of Ijara receivables as at 31 December is as follows:

	2022			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Gross investment in Ijara receivables	**805,348**	**1,879,729**	**1,022,862**	**3,707,939**
Less: Unearned income	**(197,090)**	**(452,656)**	**(269,614)**	**(919,360)**
Net investment in Ijara receivables	**608,258**	**1,427,073**	**753,248**	**2,788,579**
Less: Impairment allowance for credit losses				**(75,080)**
Ijara receivables, net				**2,713,499**

	2021			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Gross investment in Ijara receivables	946,945	2,169,878	1,177,302	4,294,125
Less: Unearned income	(224,632)	(524,616)	(274,651)	(1,023,899)
Net investment in Ijara receivables	722,313	1,645,262	902,651	3,270,226
Less: Impairment allowance for credit losses				(88,229)
Ijara receivables, net				3,181,997

7.3 The table below stratifies credit exposures from Ijara receivables into ranges of receivables to value ratio. Ijara receivables to value ratio is calculated by dividing the gross amount of the financing with the fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

	2022	2021
Less than 50%	**885,069**	831,933
51-70%	**832,384**	970,123
71-85%	**638,491**	740,202
86-100%	**260,945**	563,977
Above 100%	**171,689**	163,991
Total exposure	**2,788,579**	3,270,226

(SR'000)

7 IJARA RECEIVABLES, NET (CONTINUED)

7.4 The table below stratifies credit exposures from Ijara receivables into corporate, High Net Worth Individuals (HNWI) and retail segments.

2022

	Corporate	**HNWI**	**Retail**	**Total**
Gross investment in Ijara receivables	**1,306,719**	**1,041,596**	**1,359,624**	**3,707,939**
Less: Unearned income	**(238,682)**	**(202,589)**	**(478,089)**	**(919,360)**
Net investment in Ijara receivables	**1,068,037**	**839,007**	**881,535**	**2,788,579**
Less: Impairment allowance for credit losses	**(51,481)**	**(17,995)**	**(5,605)**	**(75,081)**
Ijara receivables, net	**1,016,556**	**821,012**	**875,930**	**2,713,498**

2021

	Corporate	**HNWI**	**Retail**	**Total**
Gross investment in Ijara receivables	1,438,164	1,455,136	1,400,825	4,294,125
Less: Unearned income	(243,666)	(313,125)	(467,108)	(1,023,899)
Net investment in Ijara receivables	1,194,498	1,142,011	933,717	3,270,226
Less: Impairment allowance for credit losses	(57,772)	(22,815)	(7,642)	(88,229)
Ijara receivables, net	1,136,726	1,119,196	926,075	3,181,997

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

	2022	2021
Gross investment in Ijara Mawsofa Fi Athemmah receivables	**148,713**	130,253
Less: Unearned income	**(59,130)**	(46,998)
Net investment in Ijara Mawsofa Fi Athemmah receivables	**89,583**	83,255
Less: Impairment allowance for credit losses	**(25)**	(126)
Ijara Mawsofa Fi Athemmah receivables, net	**89,558**	83,129

(SR'000)

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET (CONTINUED)

8.1 The ageing of past due but not impaired Ijara Mawsofa Fi Athemmah receivables as at 31 December was as follows:

Days past due:	**2022**	2021
1 - 30	**31,775**	-
31 – 60	**264**	-
61 – 90	-	62
Total	**32,021**	62

The fair value of collaterals, based on latest independent appraisals, held against impaired Ijara Mawsofa Fi Athemmah as at 31 December 2021 was SR 0.54 million (2021: SR 0.53 million).

8.2 The maturity profile of Ijara Mawsofa Fi Athemmah receivables as at 31 December 2021 was as follows:

	2022			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Gross investment in Ijara Mawsofa Fi Athemmah receivables	**11,464**	**39,566**	**97,683**	**148,713**
Less: Unearned income	**(6,074)**	**(20,972)**	**(32,084)**	**(59,130)**
Net investment in Ijara Mawsofa Fi Athemmah receivables	**5,390**	**18,594**	**65,599**	**89,583**
Less: Impairment allowance for credit losses				**(25)**
Ijara Mawsofa Fi Athemmah receivables, net				**89,558**

	2021			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Gross investment in Ijara Mawsofa Fi Athemmah receivables	9,594	34,485	86,174	130,253
Less: Unearned income	(4,851)	(16,472)	(25,675)	(46,998)
Net investment in Ijara Mawsofa Fi Athemmah receivables	4,743	18,013	60,499	83,255
Less: Impairment allowance for credit losses				(126)
Ijara Mawsofa Fi Athemmah receivables, net				83,129

(SR'000)

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET (CONTINUED)

8.3 The table below stratifies credit exposures from Ijara Mawsofa Fi Athemmah receivables into ranges of receivables to value ratio. Ijara Mawsofa Fi Athemmah receivables to value ratio is calculated by dividing the gross amount of the financing with the fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

	2022	2021
Less than 50%	**5,841**	22,567
51-70%	**26,518**	25,475
71-85%	**41,517**	30,302
86-100%	**15,707**	4,911
Total exposure	**89,584**	83,255

8.4 The table below stratifies credit exposures from Ijara Mawsofa Fi Athemmah receivable into corporate, High Net Worth Individuals (HNWI) and retail segments.

2022

	Corporate	**HNWI**	**Retail**	**Total**
Gross investment in Ijara receivables	**-**	**-**	**148,713**	**148,713**
Less: Unearned income	**-**	**-**	**(59,130)**	**(59,130)**
Net investment in Ijara receivables	**-**	**-**	**89,583**	**89,583**
Less: Impairment allowance for credit losses	**-**	**-**	**(25)**	**(25)**
Ijara receivables, net	**-**	**-**	**89,558**	**89,558**

2021

	Corporate	**HNWI**	**Retail**	**Total**
Gross investment in Ijara receivables	-	-	130,253	130,253
Less: Unearned income	-	-	(46,998)	(46,998)
Net investment in Ijara receivables	-	-	83,254	83,254
Less: Impairment allowance for credit losses	-	-	(126)	(126)
Ijara receivables, net	-	-	83,128	83,128

9 PREPAYMENTS AND OTHER ASSETS

	2022	2021
Other real estate assets – held for sale	**1,315**	26,859
Value added tax receivable	**4,225**	11,298
Servicing rights (note 20)	**13,582**	1,995
Receivable from joint ventures	**-**	1,774
Properties repossessed	**40,803**	7,134
Others	**42,802**	44,778
	102,727	93,838

(SR'000)

10 PROPERTY, EQUIPEMENT AND RIGHT OF USE ASSETS, NET

2022	Land	Leasehold improvements	Office equipment	Furniture and fixtures	Information technology equipment	Right of use asset*	Capital work in Progress**	Total
Cost:								
Balance at beginning of the year	-	6,560	1,212	1,624	39,353	29,270	3,347	81,366
Additions	-	14	26	4	488	649	3,556	4,737
Transfers	-	142	18	-	3,789	-	(3,949)	-
Disposal	-	-	-	(2)	(1,514)	-	-	(1,516)
Balance at end of the year	-	6,716	1,256	1,626	42,116	29,919	2,954	84,587
Accumulated depreciation:								
Balance at beginning of the year	-	2,208	838	467	24,777	6,838	-	35,128
Charge for the year	-	1,010	113	253	4,734	3,238	-	9,348
Disposals for the year	-	-	-	(2)	(1,309)	-	-	(1,311)
Balance at end of the year	-	3,218	951	718	28,202	10,076		43,165
Net book value: At 31 December 2022	-	3,498	305	908	13,914	19,843	2,954	41,422

* Right of use assets pertains to lease of premises of the Company's head office and its branches.

**Capital work in progress as at 31 December 2022 represents mainly the amount paid for information technology system implementation / upgrade.

(SR'000)

10 PROPERTY, EQUIPEMENT AND RIGHT OF USE ASSETS, NET (CONTINUED)

2021	Land	Leasehold improvements	Office equipment	Furniture and fixtures	Information technology equipment	Right of use asset*	Capital work in Progress**	Total
Cost:								
Balance at beginning of the year	13,650	6,371	1,063	1,469	34,678	27,738	2,562	86,896
Additions	-	14	94	60	3,021	1,532	2,764	7,485
Transfers	-	175	55	95	1,654	-	(1,979)	-
Write off	(13,650)	-	-	-	-	-	-	(13,650)
Balance at end of the year	-	6,560	1,212	1,624	39,353	29,270	3,347	80,731
Accumulated depreciation:								
Balance at beginning of the year	-	1,137	732	232	20,585	3,654	-	25,705
Charge for the year	-	1,071	106	235	4,192	3,184	-	8,788
Balance at end of the year	-	2,208	838	467	24,777	6,838	-	34,493
Net book value: At 31 December 2021	-	4,352	374	1,157	14,576	22,432	3,347	46,238

* Right of use assets pertains to lease of premises of the Group's head office and its branches.

**Capital work in progress as at 31 December 2021 represents mainly the amount paid for information technology system implementation / upgrade and the new head office.

11 ACCOUNTS PAYABLE AND OTHER ACCRUALS

	2022	2021
Lease liabilities	**20,014**	22,107
Advance from customers	**11,753**	20,505
Salaries and employee related expenses	**11,793**	16,054
Accrued expenses	**14,846**	9,725
Amounts received from customers (note 11.1)	**1,595**	2,659
Servicing contract payables	**33,895**	1,518
Others	**5,961**	1,046
	99,857	73,614

11.1 This majorly represents down payment received from the customers, which is not paid to the seller of the property.

12 DERIVATIVES

As at 31 December 2022, the Group held profit rate swaps ("PRS") of a notional value of SR 660 million (2021: SR 460 million) in order to hedge its exposure to commission rate risks related to its borrowings. The tables below summarizes the fair values of derivative financial instruments, together with the notional amounts, analysed by the term to maturity.

			Notional amount			
SR in 000'	**Positive fair value of PRSs**	**Negative fair value of PRSs**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
2022	**20,515**	**(1,483)**	**260,000**	**-**	**400,000**	**-**
2021	-	**(4,253)**	-	**200,000**	**260,000**	-

13 ZAKAT AND INCOME TAX

a) The movement in zakat and income tax provision is as follow:

	31 December 2022		
	Zakat	**Income tax**	**Total**
Balance at the beginning of the year	**25,272**	**-**	**25,272**
Charge for the year	**14,211**		**14,211**
Charge for the prior period	**196**	**-**	**196**
Unwinding of discount	**187**	**-**	**187**
Payments made during the year	**(20,267)**	**-**	**(20,267)**
Balance as at end of the year	**19,599**	**-**	**19,599**

(SR'000)

13 ZAKAT AND INCOME TAX (CONTINUED)

	31 December 2021		
	Zakat	Income tax	Total
Balance at the beginning of the year	31,847	-	31,847
Charge for the year	15,582	-	15,582
Adjustment of prior period charge	(528)		(528)
Unwinding of discount	686	-	686
Payments made during the year	(22,315)	-	(22,315)
Balance as at end of the year	25,272	-	25,272

Zakat payable includes SR 5.4 million (31 December 2021: SR 10.572 million) payable against the settlement agreement with Zakat, Tax and Customs Authority ("ZATCA") in respect of zakat assessment years from 2013 to 2017.

b) Zakat and income tax status

Zakat and income tax declaration for all the years up till 2021 have been filed with the ZATCA and acknowledgement certificates have been obtained.

During the year ended 31 December 2022, the Company received final zakat assessments for the years ended 31 December 2019 and 31 December 2020. The assessments led to increase in zakat liability by SR 331,798 for the year ended 31 December 2019 and reduction in zakat liability by SR 57,842 for the year ended 31 December 2020. The Company has accepted the assessments raised by ZATCA.

(SR'000)

14 BORROWINGS

These represent amounts borrowed from local commercial banks and Saudi Real Estate Re-finance Group ("SRC") under Islamic borrowings approved by Sharia Committee. These facilities carry borrowing costs at profit rates ranging from 3 months to 1 year Saudi Inter Bank Offer rates ("SIBOR") plus spread with maturity ranging from 1 month to 5 years and are secured by the assignment of proceeds from receivables. Under the terms of the financing arrangement, the Group adhered to financial covenants. A breakdown of borrowings by maturity is as follows:

Borrowings:	**2022**	2021
Current portion	**437,076**	727,485
Non-current portion	**1,322,140**	1,312,391
	1,759,216	2,039,876

14.1 The movement in borrowings for the years ended 31 December was as follows:

	2022	2021
Balance at beginning of the year	**2,039,876**	2,094,670
Borrowings obtained during the year	**1,265,000**	1,669,500
Principal repayments during the year	**(1,546,168)**	(1,726,747)
Profit accrued during the year	**66,545**	53,888
Profit repayments during the year	**(66,037)**	(52,322)
Modification gain on borrowing, net	**-**	887
Balance at end of the year	**1,759,216**	2,039,876

15 EMPLOYEES' END OF SERVICE BENEFITS

The following tables summarise the components of employees' end of service benefits recognised in the consolidated statements of financial position, profit or loss and comprehensive income.

a) Amount recognised in the consolidated statement of financial position as at 31 December:

	2022	2021
Present value of defined benefit obligation	**16,122**	15,843

b) Benefit expense (recognised in the consolidated statement of profit or loss):

	For the year ended 31 December	
	2022	2021
Current service cost	**2,286**	2,249
Interest cost	**354**	248
Past service cost	**-**	-
	2,640	2,497

(SR'000)

15 EMPLOYEES' END OF SERVICE BENEFITS (CONTINUED)

c) Movement in the present value of defined benefit obligation:

	For the year ended 31 December	
	2022	2021
Present value of defined benefit obligation at beginning of the year	**15,843**	15,592
Charge recognised in the consolidated statement of profit or loss:		
- Current service cost	**2,286**	2,249
- Finance cost	**354**	248
- Past service cost	**-**	-
	2,640	2,497
Actuarial gain on defined benefit plan recognized in the consolidated statement of comprehensive income	**(980)**	(320)
Benefits paid	**(1,382)**	(1,926)
Present value of defined benefit obligation at end of the year	**16,122**	15,843

d) Principal actuarial assumptions:

	2022	2021
Discount rate	**4.50%**	2.25%
Salary increase rate	**4.00%**	2.25%

e) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2022		31 December 2021	
	Increase	**Decrease**	Increase	Decrease
Discount rate (1% movement)	**(538)**	**580**	(1,162)	1,325
Future salary growth (1% movement)	**577**	**(546)**	1,343	(1,200)

16 SHARE CAPITAL

As at 31 December 2022, the Company's authorised, issued and paid-up share capital was SR 906 million (31 December 2021: SR 906 million) divided into 90.6 million shares (31 December 2021: 90.6 million shares) with a nominal value of SR 10 each.

17 STATUTORY RESERVE

In accordance with the Company's By-laws and the Companies Law in Saudi Arabia, 10% of the annual net income is transferred to statutory reserve until such reserve equals 30% of the group's share capital. This reserve is not available for distribution to the shareholders. During the year, the Company has transferred SR 9.67 million (31 December 2021: SR 10.77 million) to statutory reserve.

18 DIVIDENDS

During the current year ended 31 December 2022, the shareholders approved and declared a dividend of SR 77.01 million for the year 2021 (31 December 2021: SR 72.48 million for the year 2020).

19 EARNINGS PER SHARE

The basic and diluted earnings per share have been computed by dividing the net income for the year by the weighted average numbers of share outstanding during the period.

	2022	2021
Net income for the year *(SR '000)*	**96,722**	107,753
Weighted average number of ordinary shares *(in thousands)*	**90,600**	90,600
Basic and diluted earnings per share *(SR)*	**1.07**	1.19

There are no potential dilutive instruments as at 31 December 2022 (31 December 2021: Nil).

20 SERVICING RIGHTS UNDER AGENCY ARRANGEMENTS

The Group enters into arrangements for servicing Ijara receivables and Ijara mowsofa fi athemmah receivables on behalf of third parties. Such receivables represent instruments initially originated by the Group and subsequently sold to third party. The Group acts in the sole capacity of servicing agent represented by activities such as collection of Ijara receivables rentals on behalf of the principals. No credit risk is assumed by the Group throughout the period of servicing.

During the year, the Group sold its financing portfolio amounted to SR 19.06 million (31 December 2021: SR 161.61 million) and entered into an agency contract for servicing these receivables. The outstanding balance of portfolio, which the Group is servicing as at 31 December 2022 amounted to SR 728.62 million (2021: SR 805.2 million)

Assumptions involved in the calculation of servicing rights under agency arrangements are as follows:

Discount rates:
Discount rate represents the current market assessment of the risks specific to the Group, taking into consideration the Group's incremental borrowing rate.

Servicing costs:
The Group assesses the cost of servicing including staff and other costs, to arrive at a base rate per contract.

Early settlement rate:
The Group calculates early settlement rate as a percentage of total portfolio sold to a third party with the portfolio which has early settled until the end of the year.

During the year ended 31 December 2022, the Company enhanced the calculation of the servicing rights under the agency agreements. The change relates to refinements and enhancements made in the cost allocation methodology used to calculate costs under the servicing agreements. Had this change in accounting estimate not made, the net income for the year ended 31 December 2022, would have been lower by SR 13.2 million.

(SR'000)

21 GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2022	2021
Salaries and employee related cost	**60,849**	57,728
VAT Expenses	**5,510**	4,401
Information technology expenses	**4,830**	4,795
Board fee and expenses	**4,480**	4,343
Professional fee	**3,566**	5,783
Bank charges	**991**	1,206
Communication	**830**	998
Maintenance expenses	**780**	953
Rent and other expenses	**675**	1,038
Travelling expenses	**492**	624
Others	**7,296**	6,369
	90,299	88,238

22 SELLING AND MARKETING EXPENSES

	For the year ended 31 December	
	2022	2021
Salaries and outsourcing cost	**5,493**	5,855
Insurance	**2,864**	5,391
Marketing expenses	**2,916**	2,309
	11,273	13,555

23 RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company include its shareholders and their affiliated entities, the subsidiary, members of the Board and its committees and key management personnel. In the ordinary course of its activities, the Company transacts business with its related parties on mutually agreed terms. Key management personnel represent Managing Director, Chief Executive Officer and his direct reportees.

Significant transactions and balances arising from transactions with related parties are as follows:

Nature of transactions	Name of related party	Relationship	Amounts of transactions for the year ended 31 December	
			2022	2021
Borrowing cost	The Saudi Investment Bank	Shareholder	**19,587**	5,257
Salaries and benefits	Key management personnel	Key management	**17,032**	14,709
Financing income	Key management personnel	Key management	**140**	152
Board meeting fees and other expenses	Board members	Board members	**4,480**	4,343
Insurance	SABB Takaful Company	Affiliate	**93**	1,016

(SR'000)

23 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Nature of balances and names of related parties	Relationship	Balances 2022	Balances 2021
Bank balances:			
The Saudi Investment Bank	Shareholder	**10,002**	1,805
Due from a related party:			
Alistithmar Capital	Affiliate	**-**	1,774
Borrowings:			
The Saudi Investment Bank	Shareholder	**595,637**	450,446
Negative fair value of derivatives:			
The Saudi Investment Bank	Shareholder	**1,483**	**-**
Financing and advances:			
Key management personnel	Key management	**832**	628
Investment at FVTPL:			
SAIB Saraya Tower Real Estate Development Fund	Affiliate	**105**	8,985
Board meeting and other accrued expenses			
Board members	Board members	**4,428**	3,900

24 FINANCIAL RISK MANAGEMENT

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Board Risk Management Committee, which has the responsibility to monitor the overall risk process within the Group.

The Risk Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The Risk Management Committee is responsible for managing risk decisions and monitoring on risk levels and reports on a quarterly basis to the Board Risk Management Committee.

1) Credit risk

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to Murabaha, Ijara and Ijara Mawsofa Fi Athemmah receivables.

The Group assesses the probability of default of counterparties using internal rating mechanism. This is done for corporate and high net worth individuals only.

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored on regularly basis.

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

The Group seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific business.

Management monitors the market value of collateral obtained during its review of the adequacy of the impairment allowance for credit losses. The Group regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

Below are the Group's internal credit rating for corporate and high net worth individuals portfolio:

Internal rating grades	Internal rating description	PD range
Performing:		
1	Investment grade	0.00%
2+ to 2-	Investment grade	0.00%-0.2%
3+ to 3-	Investment grade	0.04%-0.07%
4+ to 4-	Investment grade	0.12%-0.24%
5+ to 5-	Non-investment grade	0.48%-1.18%
6+ to 6-	Non-investment grade	2.05%-8.50%
7+ to 7-	Non-investment grade	24.59%
Non-performing:		
8	Sub-standard	100%
9	Doubtful	100%
10	Loss	100%

The retail portfolio is categorized as unrated.

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the reporting date was on account of:

	2022	2021
Cash and cash equivalents	**38,191**	8,788
Positive fair value of derivatives	**20,515**	-
Murabaha receivables, net	**480,193**	143,573
Ijara receivables, net	**2,713,499**	3,181,997
Ijara mawsofa fi athemmah receivables, net	**89,558**	83,129
Other receivables	**46,517**	62,634
	3,388,473	3,480,121

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

a) Credit quality analysis

The following table sets out information about the credit quality of financing and leasing financial assets as at 31 December. The amounts in the table represent gross carrying amounts.

2022:

	Stage 1 - 12 month ECL		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**Impairment allowance for credit losses**	**Net exposure**
Grades 1 to 4-	**459,201**	**1**	**459,200**
Grades 5+ to 7-	**1,035,818**	**5**	**1,035,813**
Unrated	**923,384**	**303**	**923,081**
Total	**2,418,403**	**309**	**2,418,094**

	Stage 2 - Lifetime ECL (not credit impaired)		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**Impairment allowance for credit losses**	**Net exposure**
Grades 1 to 4-	**20,357**	**4**	**20,353**
Grades 5+ to 7-	**670,828**	**4,264**	**666,564**
Unrated	**26,160**	**808**	**25,352**
Total	**717,345**	**5,076**	**712,269**

	Stage 3 - Lifetime ECL (credit impaired)		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**Impairment allowance for credit losses**	**Net exposure**
Grades 1 to 4-	**4,094**	**410**	**3,684**
Grades 5+ to 7-	**47,107**	**5,957**	**41,150**
Grades 8 to 10	**149,724**	**59,351**	**90,373**
Unrated	**22,197**	**4,517**	**17,680**
Total	**223,122**	**70,235**	**152,887**

2021:

	Stage 1 - 12 month ECL		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 1 to 4-	648,880	529	648,351
Grades 5+ to 7-	713,384	2,018	711,366
Unrated	877,728	1,322	876,406
Total	2,239,992	3,869	2,236,123

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

a) Credit quality analysis (Continued)

Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Stage 2 - Lifetime ECL (not credit impaired)		
	Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 1 to 4-	124,278	202	124,076
Grades 5+ to 7-	686,527	12,548	673,979
Unrated	103,275	611	102,664
Total	914,080	13,361	900,719

Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Stage 3 - Lifetime ECL (credit impaired)		
	Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 5+ to 7-	132,998	20,268	112,730
Grades 8 to 10	174,058	45,871	128,187
Unrated	36,776	5,836	30,940
Total	343,832	71,975	271,857

b) Amounts arising from ECL – Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the 12 month probability of default (PD) as at the reporting date; with
- the 12 month probability of default (PD) at the time of initial recognition of the exposure

Stage 1: When receivables are first recognised, the Group recognises an allowance based on 12months ECLs. Stage 1 receivables also include facilities where the credit risk has improved and the receivables has been reclassified from Stage 2.

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

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

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

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

b) Amounts arising from ECL – Significant increase in credit risk (Continued)

i) Credit risk grades

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

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

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

Corporate exposures	All exposures
• Information obtained during annual review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes. • Actual and expected significant changes in business activities of the borrower.	• Payment record – this includes overdue status. • Requests for and granting of forbearance. • Existing and forecast changes in business, financial and economic conditions.

ii) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures separately for the corporate and retail portfolios.

The Group analyses the relationships between its historical default rates and macro-economic factors. For both the corporate and retail portfolios, the key macro-economic indicator is oil price and GDP. The Group has formulated a view of the future direction of relevant economic variables for three different scenarios.

iii) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modelling, the remaining lifetime PD is determined to have increased significantly.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

b) Amounts arising from ECL – Significant increase in credit risk (Continued)

iii) Determining whether credit risk has increased significantly (Continued)

For the corporate and high net worth individual portfolio, apart from the increase in PD (2 rating downgrade or 6 sub-notch down) criteria and customers whose receivables are restructured due to deterioration in credit worthiness, as a backstop, the group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

For retails loans, apart from the customers whose receivables are restructured due to deterioration in credit worthiness, as a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- the criteria do not align with the point in time when an asset becomes 30 days past due

iv) Modified financial assets

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

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

- the risk of default at the reporting date (based on modified contractual terms); and
- the risk of default occurring at initial recognition (based on original, unmodified contractual terms)

The Group renegotiates receivables from customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Group's forbearance policy, receivable forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

b) Amounts arising from ECL – Significant increase in credit risk (Continued)

iv) Modified financial assets (Continued)

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of receivable covenants. Both retail and corporate receivables are subject to the forbearance policy. The Group Risk Management Committee regularly reviews reports on forbearance activities.

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

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

v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from economic experts and consideration of a variety of forecast information, the Group 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. External information includes economic data and forecasts published by International Monetary Fund.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at the year-end included the following ranges of key indicator:

Economic Indicators	**31 December 2022**	31 December 2021
Oil prices	**Indicator no longer used for ECL assessment**	Base case 70% Downside 30%
Gross domestic product	**Base case 75% Best case 5% Downside 20%**	Base case 70% Best case 0% Downside 30%
Government expenditures	**Base case 70% Best case 5% Downside 25%**	Indicator was not used for ECL assessment

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

b) Amounts arising from ECL – Significant increase in credit risk (Continued)

v) Incorporation of forward looking information (continued)

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 7 years. To account for the impact of COVID-19, 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	**Forecast calendar years used in 2022 ECL model**			Forecast calendar years used in 2021 ECL model		
	2022	**2023**	**2024**	2021	2022	2023
GDP	**7.62%**	**3.67%**	**2.93%**	4.83%	2.78%	2.82%
Oil price	**Indicator no longer used for ECL assessment**			$70.50	$67.58	$68.89
Government expenditure	**26.8%**	**27.7%**	**27.7%**	Indicator not used for ECL assessment		

vi) Definition of 'Default'

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

- the borrower is unlikely to pay its credit obligations to the Group in full;
- the borrower is classified in default category as per internal credit grade (applicable for corporate and high net worth individuals); or
- the borrower is past due more than 90 days on any material credit obligation to the Group.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative e.g. breaches of covenant
- quantitative e.g. overdue status and non-payment on another obligation of the same issuer to the Group.

vii) Measurement of ECL

The key inputs into the measurement of ECL are the following risk estimates:

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

PD estimates are estimates at a certain date, which are calculated, based on statistical rating mechanism, and assessed using rating grades tailored for the corporate and high net worth individuals portfolios. These rating mechanisms are based on both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. Further the PD term structure is estimated considering the contractual maturities of exposures

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD based on the history of recovery rates of claims against defaulted counterparties. LGD estimation considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset. Due to sparse historical defaults, the quantitative LGD estimates has been adjusted for qualitative overlays based on the Group's empirical loss experience and is subject to back testing.

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

b) Amounts arising from ECL – Significant increase in credit risk (Continued)

vii) Measurement of ECL (Continued)

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Group has a right to require repayment.

For portfolios in respect of which the Group has limited historical data or depending on the materiality of portfolio, qualitative adjustment is used to supplement any internally available data.

Sensitivity of ECL allowance:

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

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the year end:

Assumptions sensitized	Impact on Profit or (loss) (2022)
Macro-economic factors:	
Increase in government expenditure by 5%	316
Decrease in government expenditure by 5%	(352)
Increase in GDP by 5%	74
Decrease in GDP by 5%	(75)
Scenario weightages:	
Base scenario increase by 5% with corresponding change in downside	13
Base scenario decrease by 5% with corresponding change in downside	(12)
Base scenario increase by 5% with corresponding change in upside	(3)

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

c) Gross receivables and loss allowance

Below tables provide the details of gross exposures and loss allowance for corporate, High Net Worth individuals (HNWI) and retail segments.

Gross exposure - 2022

	Note	**Corporate**	**HNWI**	**Retail**	**Total**
Murabaha receivables	**6.4**	**242,951**	**237,134**	**623**	**480,708**
Net investment in Ijara receivables	**7.4**	**1,068,037**	**839,007**	**881,535**	**2,788,579**
Net investment in Ijara Mawsofa Fi Athemmah receivables	**8.4**	**-**	**-**	**89,583**	**89,583**
Ijara receivables, net		**1,310,988**	**1,076,141**	**971,741**	**3,358,870**

Gross exposure - 2021

	Note	Corporate	HNWI	Retail	Total
Murabaha receivables	6.4	71,130	72,486	807	144,423
Net investment in Ijara receivables	7.4	1,194,498	1,142,011	933,717	3,270,226
Net investment in Ijara Mawsofa Fi Athemmah receivables	8.4	-	-	83,255	83,255
Ijara receivables, net		1,265,628	1,214,497	1,017,779	3,497,904

Loss allowance - 2022

	Note	**Corporate**	**HNWI**	**Retail**	**Total**
Murabaha receivables	**6.4**	**(32)**	**(483)**	**-**	**(515)**
Net investment in Ijara receivables	**7.4**	**(51,481)**	**(17,994)**	**(5,605)**	**(75,080)**
Net investment in Ijara Mawsofa Fi Athemmah receivables	**8.4**	**-**	**-**	**(25)**	**(25)**
Ijara receivables, net		**(51,513)**	**(18,477)**	**(5,630)**	**(75,620)**

Loss allowance - 2021

	Note	Corporate	HNWI	Retail	Total
Murabaha receivables	6.4	(232)	(617)	(1)	(850)
Net investment in Ijara receivables	7.4	(57,772)	(22,815)	(7,642)	(88,229)
Net investment in Ijara Mawsofa Fi Athemmah receivables	8.4	-	-	(126)	(126)
Ijara receivables, net		(58,004)	(23,432)	(7,769)	(89,205)

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

c) Gross receivables and loss allowance (Continued)

The following table shows reconciliations from the opening to the closing balance of the gross receivables and loss allowance based on customer categories for the year ended 31 December 2022.

GROSS EXPOSURE - CORPORATE	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2022	**780,742**	**272,144**	**212,742**	**1,265,628**
Transfer from 12 Month ECL	**(118,250)**	**115,901**	**2,349**	**-**
Transfer from Lifetime ECL (not credit impaired)	**18,401**	**(18,401)**	**-**	**-**
Transfer from Lifetime ECL (credit impaired)	**56,754**	**-**	**(56,754)**	**-**
Net repayment received during the year	**(402,711)**	**132,314**	**(24,835)**	**(295,232)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**335,652**	**17,000**	**-**	**352,652**
Write-offs	**-**	**-**	**(12,061)**	**(12,061)**
Balance at 31 December, 2022	**670,588**	**518,958**	**121,441**	**1,310,987**

LOSS ALLOWANCE - CORPORATE	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2022	**1,983**	**7,126**	**48,895**	**58,004**
Transfer from 12 Month ECL	**(199)**	**188**	**11**	**-**
Transfer from Lifetime ECL (not credit impaired)	**146**	**(146)**	**-**	**-**
Transfer from Lifetime ECL (credit impaired)	**10,044**	**-**	**(10,044)**	**-**
Net re-measurement of loss allowance	**(10,966)**	**2,492**	**22,182**	**13,708**
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	**(1,008)**	**(6,580)**	**(2,456)**	**(10,044)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**1**	**26**	**-**	**27**
Write-offs	**-**	**-**	**(10,182)**	**(10,182)**
Balance at 31 December, 2022	**1**	**3,106**	**48,406**	**51,513**

GROSS EXPOSURE - HIGH NET WORTH INDIVIDUALS	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2022	**581,521**	**538,661**	**94,315**	**1,214,497**
Transfer from 12 Month ECL	**(29,262)**	**29,262**	**-**	**-**
Transfer from Lifetime ECL (not credit impaired)	**246,529**	**(279,539)**	**33,010**	**-**
Transfer from Lifetime ECL (credit impaired)	**21,344**	**15,660**	**(37,004)**	**-**
Net repayment received during the year	**(348,953)**	**(131,817)**	**(9,943)**	**(490,713)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**353,250**	**-**	**-**	**353,250**
Write-offs	**-**	**-**	**(893)**	**(893)**
Balance at 31 December, 2022	**824,429**	**172,227**	**79,485**	**1,076,141**

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

c) Gross receivables and loss allowance (Continued)

LOSS ALLOWANCE - HIGH NET WORTH INDIVIDUALS	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2022	**564**	**5,623**	**17,245**	**23,432**
Transfer from 12 Month ECL	**(47)**	**47**	**-**	**-**
Transfer from Lifetime ECL (not credit impaired)	**1,064**	**(2,305)**	**1,241**	**-**
Transfer from Lifetime ECL (credit impaired)	**1,600**	**1,978**	**(3,578)**	**-**
Net re-measurement of loss allowance	**(2,874)**	**(1,920)**	**4,500**	**(294)**
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	**(306)**	**(2,262)**	**(1,306)**	**(3,874)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**4**	**-**	**-**	**4**
Write-offs	**-**	**-**	**(791)**	**(791)**
Balance at 31 December, 2022	**5**	**1,161**	**17,311**	**18,477**

GROSS EXPOSURE – RETAIL	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2022	**877,728**	**103,275**	**36,776**	**1,017,779**
Transfer from 12 Month ECL	**(10,523)**	**10,070**	**453**	-
Transfer from Lifetime ECL (not credit impaired)	**67,930**	**(71,860)**	**3,930**	-
Transfer from Lifetime ECL (credit impaired)	**1,651**	**7,529**	**(9,180)**	-
Net repayment received during the year	**(120,154)**	**(23,245)**	**(8,010)**	**(151,409)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**106,751**	**391**	**-**	**107,142**
Write-offs	**-**	**-**	**(1,770)**	**(1,770)**
Balance at 31 December, 2022	**923,383**	**26,150**	**22,199**	**971,742**

LOSS ALLOWANCE - RETAIL	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2022	**1,322**	**611**	**5,836**	**7,769**
Transfer from 12 Month ECL	**(15)**	**14**	**1**	-
Transfer from Lifetime ECL (not credit impaired)	**397**	**(411)**	**14**	-
Transfer from Lifetime ECL (credit impaired)	**183**	**644**	**(827)**	-
Net re-measurement of loss allowance	**(1,542)**	**40**	**915**	**(587)**
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	**(68)**	**(99)**	**(496)**	**(663)**
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	**26**	**8**	**-**	**34**
Write-offs	**-**	**-**	**(923)**	**(923)**
Balance at 31 December, 2022	**303**	**807**	**4,520**	**5,630**

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

c) Gross receivables and loss allowance (Continued)

The following table shows reconciliations from the opening to the closing balance of the gross receivables and loss allowance based on customer categories for the year ended 31 December 2021.

GROSS EXPOSURE - CORPORATE	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2021	729,523	317,241	278,184	1,324,948
Transfer from 12 Month ECL	-	-	-	-
Transfer from Lifetime ECL (not credit impaired)	17,535	(42,045)	24,510	-
Transfer from Lifetime ECL (credit impaired)	-	7,245	(7,245)	-
Net repayment received during the year	(220,376)	(10,297)	(78,559)	(309,232)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	254,060	-	-	254,060
Write-offs	-	-	(4,148)	(4,148)
Balance at 31 December, 2021	780,742	272,144	212,742	1,265,628

LOSS ALLOWANCE - CORPORATE	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2021	2,175	4,379	54,922	61,476
Transfer from 12 Month ECL	-	-	-	-
Transfer from Lifetime ECL (not credit impaired)	101	(325)	224	-
Transfer from Lifetime ECL (credit impaired)	-	543	(543)	-
Net re-measurement of loss allowance	(291)	3,330	(1,752)	1,287
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(655)	(801)	(1,146)	(2,602)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	653	-	-	653
Write-offs	-	-	(2,810)	(2,810)
Balance at 31 December, 2021	1,983	7,126	48,895	58,004

GROSS EXPOSURE - HIGH NET WORTH INDIVIDUALS	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2021	399,098	665,461	91,864	1,156,423
Transfer from 12 Month ECL	(43,903)	25,502	18,401	-
Transfer from Lifetime ECL (not credit impaired)	7,504	(51,311)	43,807	-
Transfer from Lifetime ECL (credit impaired)	-	36,097	(36,097)	-
Net repayment received during the year	(117,784)	(180,188)	(23,660)	(321,632)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	336,606	43,100	-	379,706
Balance at 31 December, 2021	581,521	538,661	94,315	1,214,497

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

c) Gross receivables and loss allowance (Continued)

LOSS ALLOWANCE - HIGH NET WORTH INDIVIDUALS	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2021	331	4,891	16,096	21,318
Transfer from 12 Month ECL	(36)	23	13	-
Transfer from Lifetime ECL (not credit impaired)	32	(286)	254	-
Transfer from Lifetime ECL (credit impaired)	-	4,005	(4,005)	-
Net re-measurement of loss allowance	(51)	(1,934)	5,125	3,140
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(72)	(1,526)	(238)	(1,836)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	360	450	-	810
Balance at 31 December, 2021	564	5,623	17,245	23,432

GROSS EXPOSURE - RETAIL	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2021	727,006	193,143	44,530	964,679
Transfer from 12 Month ECL	(7,852)	7,015	837	-
Transfer from Lifetime ECL (not credit impaired)	52,417	(61,326)	8,909	-
Transfer from Lifetime ECL (credit impaired)	2,242	8,219	(10,461)	-
Net repayment received during the year	(266,882)	(49,547)	(7,170)	(323,599)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	370,797	5,771	131	376,699
Balance at 31 December, 2021	877,728	103,275	36,776	1,017,779

LOSS ALLOWANCE - RETAIL	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2021	3,339	963	6,687	10,989
Transfer from 12 Month ECL	(9)	7	2	-
Transfer from Lifetime ECL (not credit impaired)	286	(319)	33	-
Transfer from Lifetime ECL (credit impaired)	237	805	(1,042)	-
Net re-measurement of loss allowance	(565)	(712)	961	(316)
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(2,529)	(200)	(805)	(3,534)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	563	67	-	630
Balance at 31 December, 2021	1,322	611	5,836	7,769

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

d) Collateral

The Group in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables. These collaterals mostly include real estate property. Collaterals are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk. Please see note 24(a) for details of collateral.

2) Market rate risk

a) Profit rate risk

Profit rate risk is the uncertainty of future earnings resulting from fluctuations in profit rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to profit rate adjustment within a specified period. The most important source of such rate risk is the Group's borrowings and financing activities, where fluctuations in profit rates, if any, are reflected in the results of operations.

The following table depicts the sensitivity to a reasonable possible change in profit rates, with other variables held constant, on the Group's consolidated statement of profit or loss. The sensitivity of the income is the effect of the assumed changes in profit rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at year-end. All the exposures are monitored and analysed in major currency concentrations and relevant sensitivities are disclosed in SR thousands.

2022		2021	
Change in basis points	**Impact on net income**	Change in basis points	Impact on net income
Sensitivity - Financing			
+100	**4,650**	+100	6,928
-100	**(4,650)**	-100	(6,928)
Sensitivity - Borrowings			
+100	**(15,086)**	+100	(12,081)
-100	**15,086**	-100	12,081

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The table below summarises the Group's exposure to profit rate risks. Included are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Group is exposed to special profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Group manages this risk through diversification of funding resources and use of derivative financial instruments.

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

2) Market rate risk (Continued)

a) Profit rate risk (Continued)

The table below summarizes the Group's exposure to profit rate risks:

	Profit bearing					
31 December 2022	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
Cash and cash equivalents	-	-	-	-	38,226	38,226
Investments	-	-	-	-	998	998
Positive fair value of derivatives	-	-	-	-	20,515	20,515
Murabaha receivables, net	20,853	23,801	397,078	38,461	-	480,193
Ijara receivables, net	255,938	319,531	1,388,460	749,570	-	2,713,499
Ijara mawsofa fi athemmah receivables, net	1,741	3,647	18,589	65,581	-	89,558
Other receivables	-	-	-	-	46,517	46,517
Total assets	278,532	346,979	1,804,127	853,612	106,256	3,388,506
Liabilities						
Other liabilities	-	-	-	-	85,385	85,385
Negative fair value of derivatives	-	-	-	-	1,483	1,483
Borrowings	105,973	331,102	1,322,141	-	-	1,759,216
Lease liability	-	-	-	-	20,013	20,013
SAMA deposit, net	-	-	-	-	355,863	355,863
Total liabilities	105,973	331,102	1,322,141	-	462,744	2,221,960
Gap	172,559	15,877	481,986	853,612	(356,488)	1,167,546
Cumulative Gap	172,559	188,436	670,422	1,524,035	1,167,547	-

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

2) Market rate risk (Continued)

a) Profit rate risk (Continued)

The table below summarizes the Group's exposure to profit rate risks:

	Profit bearing					
31 December 2021	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and cash equivalents	-	-	-	-	8,818	8,818
Investments	-	-	-	-	9,878	9,878
Murabaha receivables, net	20,208	19,215	101,489	2,661	-	143,573
Ijara receivables, net	294,162	396,076	1,595,971	895,788	-	3,181,997
Ijara mawsofa fi athemmah receivables, net	1,375	3,361	17,988	60,405	-	83,129
Other receivables	-	-	-	-	62,634	62,634
Total Assets	315,745	418,652	1,715,448	958,854	81,330	3,490,029
Liabilities						
Other liabilities	954	2,863	15,269	3,020	83,326	105,432
Negative fair value of derivatives	-	-	-	-	4,253	4,253
Borrowings	275,191	452,294	1,312,391	-	-	2,039,876
SAMA deposit, net	-	-	-	-	217,592	217,592
Total liabilities	276,145	455,157	1,327,660	3,020	305,171	2,367,153
Gap	39,600	(36,505)	387,788	955,834	(223,841)	1,122,876
Cumulative Gap	39,600	3,095	390,883	1,346,717	1,122,876	

b) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars. US Dollars is pegged with Saudi Riyals; therefore, Group does not have any currency risk in these transactions.

3. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

3. Liquidity risk (Continued)

i. Analysis of financial liabilities by remaining contractual maturities (Continued)

The table below summarises the maturity profile of the Group's financial liabilities at year ends based on contractual undiscounted repayment obligations. The contractual maturities of financial liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date.

		Fixed maturity				
2022	**On demand**	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Other liabilities	-	**41,108**	**22,405**	**1,857**	-	**65,371**
Employee benefits	-	**806**	**2,418**	**12,898**	-	**16,122**
Lease liabilities	-	**1,067**	**3,203**	**15,743**	-	**20,013**
Borrowings	-	**120,188**	**325,507**	**1,699,211**	-	**2,144,906**
SAMA deposit, net	-	**98,890**	**259,601**	-	-	**358,491**
Total	-	**262,059**	**613,134**	**1,729,709**	-	**2,604,902**

		Fixed maturity				
2021	**On demand**	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Other liabilities	-	30,152	26,115	17,458	304	74,029
Employee benefits	-	792	2,376	12,675	-	15,843
Lease liabilities	-	954	2,862	15,270	3,020	22,106
Borrowings	-	280,899	490,739	1,452,498	-	2,224,136
SAMA deposit, net	-	44,534	80,017	99,031	-	223,582
Total	-	357,331	602,109	1,596,932	3,324	2,559,696

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

	Fixed maturity				**No fixed maturity**	**Total**
2022	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**		
Assets						
Cash and cash equivalents	-	-	-	-	**38,226**	**38,226**
Investments	-	-	-	-	**998**	**998**
Murabaha receivables, net	**20,853**	**23,801**	**397,078**	**38,461**	-	**480,193**
Ijara receivables, net	**255,938**	**319,531**	**1,388,460**	**749,570**	-	**2,713,499**
Ijara mawsofa fi athemmah receivables, net	**1,741**	**3,647**	**18,589**	**65,581**	-	**89,558**
Prepayments and other assets	**40,525**	**21,965**	**33,309**	**6,928**	-	**102,727**
Positive fair value of derivatives	**2,367**	**7,101**	**11,047**	-	-	**20,515**
Property and equipment	-	-	-	-	**41,422**	**41,422**
Total assets	**321,424**	**376,045**	**1,848,483**	**860,540**	**80,646**	**3,487,138**

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

3. Liquidity risk (Continued)

	Fixed maturity				**No fixed maturity**	**Total**
	Within 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**		
Liabilities						
Account payables and other liabilities	**45,794**	**36,462**	**17,601**	**-**	**-**	**99,587**
Zakat and income tax payable	**-**	**19,599**	**-**	**-**	**-**	**19,599**
Borrowings	**105,973**	**331,102**	**1,322,141**	**-**	**-**	**1,759,216**
SAMA deposit, net	**97,796**	**258,067**	**-**	**-**	**-**	**355,863**
Negative fair value of derivatives	**171**	**513**	**799**	**-**	**-**	**1,483**
Employees benefits	**806**	**2,418**	**12,898**	**-**	**-**	**16,122**
Total liabilities	**250,540**	**648,161**	**1,353,439**	**-**	**-**	**2,252,140**

	Fixed maturity				No fixed maturity	Total
2021	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets						
Cash and cash equivalents	-	-	-	-	8,818	8,818
Investments	-	8,985	-	-	893	9,878
Murabaha receivables, net	20,208	19,215	101,489	2,661	-	143,573
Ijara receivables, net	294,162	396,076	1,595,971	895,788	-	3,181,997
Ijara mawsofa fi athemmah receivables, net	1,375	3,361	17,988	60,405	-	83,129
Prepayments and other assets	51,597	33,727	7,049	1,465	-	93,838
Property and equipment	-	-	-	-	46,238	46,238
Total assets	367,342	461,364	1,722,497	960,319	55,949	3,567,471
Liabilities						
Account payables and other liabilities	34,963	20,057	15,269	3,325	-	73,614
Negative fair value of derivatives	-	1,893	2,360	-	-	4,253
Zakat and income tax payable	-	20,490	4,782	-	-	25,272
Borrowings	275,191	452,294	1,312,391	-	-	2,039,876
SAMA deposit, net	43,589	76,379	97,624	-	-	217,592
Employees benefits	792	2,376	12,675	-	-	15,843
Total liabilities	354,535	573,489	1,445,101	3,325	-	2,376,450

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The principal or the most advantageous market must be accessible to the Group. Financial instruments comprise financial assets and financial liabilities.

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25 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets consist of cash and cash equivalents, investments, derivatives, Murabaha, Ijara and Ijara Mawsofa Fi Athemmah receivables and other receivables. Financial liabilities consist of borrowings, SAMA deposits, payables and derivatives.

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows the carrying amount and fair values of financial assets and financial liabilities where fair value is different from carrying value or where the financial assets and liabilities are recorded at fair value, including their levels in the fair value hierarchy.

		Fair value			
2022	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at amortised cost:					
Murabaha receivables, net	**480,193**	**-**	**-**	**466,353**	**466,353**
Ijara receivables, net	**2,713,499**	**-**	**-**	**2,445,736**	**2,445,736**
Ijara mawsofa fi athemmah receivables, net	**89,558**	**-**	**-**	**82,948**	**82,948**
Financial assets at fair value:					
Investments	**998**	**-**	**-**	**-**	**998**
Positive fair value of derivatives	**20,515**	**-**	**20,515**	**-**	**20,515**
Financial liabilities:					
Negative fair value of derivatives	**1,483**	**-**	**1,483**	**-**	**-**

		Fair value			
2021	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets at amortised cost:					
Murabaha receivables, net	143,573	-	-	144,915	144,915
Ijara receivables, net	3,181,997	-	-	3,286,957	3,286,957
Ijara mawsofa fi athemmah receivables, net	83,129	-	-	83,386	83,386
Financial assets at fair value:					
Investments	9,878	-	-	9,878	9,878
Financial liabilities:					
Negative fair value of derivatives	4,253	-	4,253	-	4,253

The valuation of fixed rate Murabaha receivables, Ijara receivables and Ijara Mowsofa Fi Athemmah receivables are estimated using contractual cash flows discounted at latest yield, which is the contracted profit rate for recent transactions. Input into the discounted cash flow technique includes recent yields and contractual cash flows. Management assessed that the carrying amount of other financial instruments largely approximate fair value due to either short-term maturities or re-pricing of the special commission on those instruments and these financial instruments are classified as level 3. There have been no transfers to and from any levels during the year.

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26 COMMITMENTS AND CONTINGENCIES

Financing facilities approved but not utilised:
The Group has facilities approved but not utilised, indicative offers issued which are under consideration of the customers as of the reporting date which have the potential to convert into financing amounting to SR 265.62 million (31 December 2021: SR 162.2 million).

27 SEGMENT INFORMATION

The Group objective is to provide financing for real estate leases in the Kingdom of Saudi Arabia. All assets, liabilities and operations as reflected in the consolidated statement of financial position and consolidated statement of comprehensive income belongs to the real estate financing segment.

For management purposes, the Group is organised into the following primary business segments:

Retail
These represents finance products granted to small and medium sized businesses and individuals.

Corporate
These represents financing products granted to corporate, high net worth individuals and institutional customers.

Head office
Head office is responsible for managing the surplus liquidity of the Group through short term market placements. It also provides support services to the business functions.

The total assets and liabilities as at 31 December 2022 and 31 December 2021 and its total operating income, expenses and net profit for period ended 31 December 2022 and 31 December 2021 are as follows:

	Retail	Corporate	Head office	Total
2022				
Income	**94,875**	**199,770**	**-**	**294,645**
Expenses	**55,771**	**127,941**	**-**	**183,712**
Segment profit	**39,104**	**71,829**	**-**	**110,933**
Total assets	**1,001,989**	**2,405,501**	**79,648**	**3,487,138**
Total liabilities	**647,127**	**1,553,572**	**51,441**	**2,252,140**
2021				
Income	84,661	201,691	-	286,352
Expenses	54,401	108,616	-	163,017
Segment profit	30,260	93,075	-	123,335
Total assets	1,029,331	2,483,084	55,056	3,567,471
Total liabilities	651,353	1,594,440	130,657	2,376,450

Below is the reconciliation of revenue and expenses from the consolidated financial statements to segment note:

	For the year ended 31 December	
	2022	2021
Income		
Total income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah	**291,465**	284,457
Fee expenses	**(1,550)**	(1,838)
Other income	**4,730**	3,733
Total income – as per segment information note.	**294,645**	286,352

(SR'000)

27 SEGMENT INFORMATION (CONTINUED)

	For the year ended 31 December	
	2022	2021
Expenses		
Finance cost	**(70,390)**	(54,219)
Depreciation	**(9,348)**	(8,788)
General and administrative expenses	**(90,299)**	(88,238)
Selling and marketing expenses	**(11,273)**	(13,555)
Impairment (charge) / reversal for credit losses, net	**(2,402)**	1,783
Total expense – as per operating segment note.	**(183,712)**	(163,017)

28 SUBSEQUENT EVENTS

There were no subsequent events after the consolidated statement of financial position date which require adjustments to / or disclosure in the consolidated financial statements.

29 SAMA DEPOSITS

During 2020 and 2021, the Coronavirus ("COVID-19") pandemic disrupted global markets as many geographies experienced issues due to identification of multiple new variants of this infections. Significant improvement have been witnessed around the world after vaccination of mass population by various countries resulting in the reduction of active cases and relaxation of COVID restrictions.

Private Sector Financing Support Program ("PSFSP"):
In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises ("MSME") as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The payment reliefs were considered as short-term liquidity support to address borrowers' potential cash flow shortages. The accounting impact of the above changes in terms of the credit facilities were assessed and has been treated as per the requirements of IFRS 9 as modification in terms of arrangement. The PSFSP program has ended on 31 March 2022. In order to compensate the related cost that the Company had incurred under the SAMA and other public authorities program, during 2020 and 2021, the Company received multiple profit free deposits from SAMA of varying maturities, which qualified as government grants and were accounted for as such.

During the year ended 31 December 2022, the Company received profit free deposits from SAMA amounting to SAR 264.3 million (31 December 2021: SAR 204.9 million), which qualified as government grants and were accounted for as such.

30 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors on 29 Rajab 1444H (corresponding to 20 February 2023).