ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA and 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in Kingdom of Saudi Arabia will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

For Dr. Mohamed Al-Amri & Co.

Gihad Al-Amri
Certified Public Accountant
Registration No. 362

د. محمد العمري وشركاه - محاسبون قانونيون
س.ت: ١٠١٠٤٣٣٩٨٢
Riyadh
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

Riyadh, on: 9 Sha'ban 1444(H)
Corresponding to: 1 March 2023(G)

ALRAEDAH FINANCE COMPANY

(A Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	**31 December 2022 SR**	31 December 2021 SR
OPERATING INCOME			
Income from Murabaha contracts		**149,061,540**	78,293,685
Finance charges		**(32,988,238)**	(26,391,704)
		116,073,302	51,901,981
Grant income and loss on restructuring of Murabaha receivables, net	6	**3,440,241**	9,971,306
Application fees and other income		**13,743,750**	10,632,569
TOTAL OPERATING INCOME, NET		**133,257,293**	72,505,856
OPERATING EXPENSES			
General and administrative expenses	7	**(43,766,771)**	(24,865,889)
Selling and marketing expenses	8	**(19,291,525)**	(10,330,773)
Depreciation and amortisation		**(3,786,581)**	(3,302,741)
Allowance for expected credit loss	14(b)	**(9,597,798)**	(1,750,760)
		56,814,618	32,255,693
Income from investments held at fair value through other comprehensive income ("FVOCI")		**33,172**	1,272,695
Gain on sale of investments held at FVOCI		**303,156**	2,386,228
PROFIT BEFORE ZAKAT		**57,150,946**	35,914,616
Zakat expense	9	**(6,102,220)**	(4,457,430)
PROFIT FOR THE YEAR		**51,048,726**	31,457,186
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Items that may be reclassified to profit or loss in subsequent periods:			
Fair value gain on investments held at FVOCI		**79,255**	1,156,826
Gain on sale of investments held at FVOCI – reclassified to profit or loss		**(303,156)**	(2,386,228)
Total items that may be reclassified to profit or loss in subsequent periods		**(223,901)**	(1,229,402)
Items that will not be reclassified to profit or loss in subsequent periods:			
Re-measurement (loss) / gain of employees' terminal benefits	21(d)	**(145,441)**	276,927
Total items that will not be reclassified to profit or loss in subsequent periods		**(145,441)**	276,927
TOTAL OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(369,342)**	(952,475)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**50,679,384**	30,504,711

The accompanying notes 1 to 29 form an integral part of these financial statements.

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	**31 December 2022 SR**	31 December 2021 SR
ASSETS			
Cash and cash equivalents	13	**33,269,740**	36,724,912
Receivable from SAMA	26	**-**	6,239,210
Murabaha receivables	14(a)	**812,262,924**	568,743,902
Repossessed assets held for sale	15	**25,722,726**	-
Prepayments and other assets	16	**14,283,063**	16,679,543
Investments held at fair value through other comprehensive income (“FVOCI”)	17	**892,850**	4,801,361
Right-of-use assets	10	**5,203,742**	6,622,946
Property and equipment	11	**5,037,902**	1,138,920
Intangible assets	12	**6,682,644**	1,212,592
TOTAL ASSETS		**903,355,591**	642,163,386
LIABILITIES AND SHAREHOLDERS’ EQUITY			
LIABILITIES			
Accounts payable and accruals	18	**68,547,508**	32,266,998
Payables to SAMA	26	**212,370,138**	210,881,152
Zakat payable	9	**5,962,909**	4,372,991
Lease liability	19	**7,801,579**	7,398,546
Borrowings	20	**368,775,746**	199,029,439
Employees' terminal benefits	21	**3,006,440**	2,002,373
TOTAL LIABILITIES		**666,464,320**	455,951,499
SHAREHOLDERS’ EQUITY			
Share capital	22	**150,000,000**	150,000,000
Statutory reserve		**10,494,411**	5,389,538
Fair value reserve – FVOCI		**-**	223,901
Reserve on re-measurement of employees’ terminal benefits		**(289,203)**	(143,762)
Retained earnings		**76,686,063**	30,742,210
TOTAL SHAREHOLDERS’ EQUITY		**236,891,271**	186,211,887
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY		**903,355,591**	642,163,386

The accompanying notes 1 to 29 form an integral part of these financial statements.

ALRAEDAH FINANCE COMPANY

(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital SR	Statutory reserve SR	Retained earnings SR	Fair value reserve - FVOCI SR	Reserve on re-measurement of employees' terminal benefits SR	Total SR
Balance as at 1 January 2021	150,000,000	2,243,819	2,430,743	1,453,303	(420,689)	155,707,176
Profit for the year	-	-	31,457,186	-	-	31,457,186
Other comprehensive loss for the year	-	-	-	(1,229,402)	276,927	(952,475)
Total comprehensive income for the year	-	-	31,457,186	(1,229,402)	276,927	30,504,711
Transfer to statutory reserve	-	3,145,719	(3,145,719)	-	-	-
Balance as at 31 December 2021	150,000,000	5,389,538	30,742,210	223,901	(143,762)	186,211,887
Profit for the year	**-**	**-**	**51,048,726**	**-**	**-**	**51,048,726**
Other comprehensive loss for the year	**-**	**-**	**-**	**(223,901)**	**(145,441)**	**(369,342)**
Total comprehensive income for the year	**-**	**-**	**51,048,726**	**(223,901)**	**(145,441)**	**50,679,384**
Transfer to statutory reserve	**-**	**5,104,873**	**(5,104,873)**	**-**	**-**	**-**
Balance as at 31 December 2022	**150,000,000**	**10,494,411**	**76,686,063**	**-**	**(289,203)**	**236,891,271**

The accompanying notes 1 to 29 form an integral part of these financial statements.

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	**31 December 2022 SR**	31 December 2021 SR
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before zakat		**57,150,946**	35,914,616
Adjustments for:			
Government grant income		**(14,979,560)**	(20,359,095)
Finance cost		**32,560,490**	25,885,967
Allowance for expected credit loss	14(b)	**9,597,798**	1,750,760
Income from investments held at FVOCI	17	**(33,172)**	(1,272,695)
Deferred grant income	18	**(474,871)**	(500,081)
Gain on sale of investment held at FVOCI		**(303,156)**	(2,386,228)
Depreciation on right-of-use assets	10	**1,419,204**	1,972,882
Depreciation on property and equipment	11	**1,760,906**	601,130
Amortisation of intangible assets	12	**606,471**	728,729
Provision for employees' terminal benefits	21(c)	**1,076,193**	646,478
Finance charge on lease	19	**403,033**	484,119
Operating cash flows before working capital adjustments		**88,784,282**	43,466,582
Working capital adjustments:			
Murabaha receivables		**(253,116,820)**	(242,486,848)
Repossessed assets held for sale		**(25,722,726)**	-
Prepayments and other assets		**2,396,480**	33,158,985
Accounts payable and accruals		**36,280,510**	6,579,943
Cash used in operating activities		**(151,378,274)**	(159,281,338)
Employees' terminal benefits paid		**(217,567)**	(439,456)
Zakat paid	9	**(4,512,302)**	(937,800)
Net cash used in operating activities		**(156,108,143)**	(160,658,594)
CASH FLOWS FROM INVESTING ACTIVITIES			
Return received on investments held at FVOCI		**-**	1,123,693
Proceeds from sale of investments held at FVOCI	17	**4,020,938**	31,076,891
Purchase of property and equipment	11	**(5,659,888)**	(1,139,439)
Purchase of intangible assets	12	**(6,076,523)**	(924,497)
Net cash (used in) / generated from investing activities		**(7,715,473)**	30,136,648
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from SAMA		**128,742,410**	139,180,656
Repayments to SAMA		**(130,500,357)**	(140,941,835)
Proceeds from borrowings		**259,365,000**	105,000,000
Repayment of borrowings		**(97,238,609)**	(59,283,187)
Payment against lease obligations	19	**-**	(826,837)
Net cash generated from financing activities		**160,368,444**	43,128,797
Net decrease in cash and cash equivalents		**(3,455,172)**	(87,393,149)
Cash and cash equivalents balances at the beginning of the year		**36,724,912**	124,118,061
Cash and cash equivalents at the end of the year	13	**33,269,740**	36,724,912

The accompanying notes 1 to 29 form an integral part of these financial statements.

1 CORPORATE INFORMATION

Alraedah Finance Company (the "Company") is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration numbered 1010314982 issued in Riyadh on 21 Ramadan 1432H (corresponding to 21 August 2011).

The Company has one branch in Dammam under commercial registration numbered 2050150330 dated 20 Rabi ul Awal 1443 (H), corresponding to 26 October 2021 (G) and one branch in Riyadh under commercial registration numbered 1010830643 dated 6 Rabi ul Awal 1444 (H), corresponding to 2 October 2022 (G).

The Company is engaged in providing finance lease, finance for small and medium entities in the form of Ijara and Murabaha, and consumer finance in accordance with the approval of Saudi Arabian Monetary Authority ("SAMA") numbered 43/ASH/201602 issued on 30 Rabi Thani 1437 (H), corresponding to 9 February 2016 (G).

The registered address of the Company is 3rd Floor, Tower B, Olaya Towers, Olaya Street, P.O. Box 86875, Riyadh, 11632, Kingdom of Saudi Arabia.

2 BASIS OF PREPARATION

The financial statements of the Company as at and for the year ended 31 December 2022 have been prepared in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants (collectively referred to as "IFRSs as endorsed in KSA").

The financial statements have been prepared on a historical cost basis following the accrual basis of accounting, except for investments held at fair value through other comprehensive income (FVOCI) which have been carried at fair value, repossessed assets held for sale measured at lower of carrying value and fair value less cost to sell, and employees' terminal benefits which have been measured at the present value of future obligations using Projected Unit Credit Method.

These financial statements have been presented in Saudi Riyals ("SR"), which is the functional currency of the Company.

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

3 APPLICATION OF NEW AND REVISED STANDARDS

3.1 New standards or amendments

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 but they had no material impact on these financial statements.

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
IAS 37 defines an onerous contract as a contract in which the unavoidable costs (costs that the Company has committed to pursuant to the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments to IAS 37.68A clarify, that the costs relating directly to the contract consist of both:
- The incremental costs of fulfilling that contract- e.g. direct labour and material; and
- An allocation of other costs that relate directly to fulfilling contracts: e.g. Allocation of depreciation charge on property, plant and equipment used in fulfilling the contract.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced during the testing phase of a manufacturing facility after it is being constructed but before start of commercial production). The proceeds from selling such samples, together with the costs of producing them, are now recognised in profit or loss.

3 APPLICATION OF NEW AND REVISED STANDARDS (continued)

Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 & IAS 41)
- IFRS 1: Subsidiary as a First-time Adopter (FTA)
- IFRS 9: Fees in the '10 per cent' Test for Derecognition of Financial liabilities
- IAS 41: Taxation in Fair Value Measurements

References to Conceptual Framework (Amendments to IFRS 3)
In May 2020, the IASB issued amendments to IFRS 3, which update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

3.2 Standards issued but not yet effective
The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. The Company does not expect the amendments to have a material impact on the Company.

Standards	Title	Effective date
IAS 1 and IFRS Practice Statement 2	Amendments - Disclosure of Accounting Policies	1 January 2023
IAS 8	Amendments - Definition of Accounting Estimates	1 January 2023
IAS 12	Amendments - Deferred Tax Related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IFRS 16	Amendment - Liability in a Sale and Leaseback	1 January 2024
IAS 1	Amendment - Classification of Liabilities as Current or Non-current	1 January 2024
IAS 1	Amendment - Non-current Liabilities with Covenants	1 January 2024

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

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

Financial assets at amortised cost
A financial asset is measured at amortised 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 interest on the principal amount outstanding.

Financial assets measured at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Financial assets at FVOCI
Debt instruments
A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest 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. Interest income and foreign exchange gains and losses are recognised in profit or loss.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised 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 after the Company changes its business model for managing financial assets.

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

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

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

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

Assessment of whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' 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 interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of financial liabilities
Upon initial recognition, the Company classifies its financial liabilities, as measured at amortised cost or as at fair value through profit or loss.

Financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through profit or loss or an entity has opted to measure a liability at fair value through profit or loss as per the requirements of IFRS 9.

All the financial liabilities of the Company, except derivatives being carried at fair value, are currently carried at amortised cost.

Amortised cost
Murabaha receivables and other financial assets measured at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) 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 recognised in OCI is recognised in profit or loss.

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investments designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise 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.

Financial liabilities
The Company derecognised a financial liability when its contractual obligations are discharged or cancelled or expired.

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

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises 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 allowance for expected credit losses. In other cases, it is presented as commission income or grant income and loss on restructuring of Murabaha receivables, net.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities
The Company derecognises 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 recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

Allowance for expected credit loss
The Company recognises loss allowance for Expected Credit Loss ("ECL") on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments; and
- loan commitments issued, if any.

No allowance for expected credit losses is recognised on equity investments.

The Company measures loss allowance 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 a period of 12 months after the reporting date.

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

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The Company categorizes its financial assets into following three stages in accordance with the IFRS-9 methodology:

- Stage 1 – Financial assets that are not significantly deteriorated in credit quality since origination. The expected credit loss allowance is recorded based on 12 months Probability of Default (PD).
- Stage 2 – Financial assets that has significantly deteriorated in credit quality since origination. The expected credit loss allowance is recorded based on lifetime ECL. The expected credit loss allowance is recorded based on life time PD.
- Stage 3 – For financial assets that are impaired, the Company recognises the expected credit loss allowance based on life time PD.

The Company also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as expert judgement, macroeconomic factors (e.g., gross domestic product and oil price) and economic forecasts obtained through internal and external sources.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised 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.

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 interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI 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 advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan 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 retail loan that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL

Allowance for ECL is presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities 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 Company's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as Kafalah guarantees and other non-financial assets. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. The fair value of collaterals affect the calculation of ECLs. The value of the collateral is determined at inception.

Repossessed assets

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

Repossessed assets classified as held for sale are presented separately from the other assets in the statement of financial position. Repossessed assets are not depreciated or amortised while they are classified as held for sale.

Subsequent to initial recognition, any cost relating to repossessed assets is recognised as part of repossessed assets.

Revenue / expenses recognition

Commission income and expenses

Commission income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortised cost of the financial instrument.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses.

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

Measurement of amortised cost and commission income

The 'amortised 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 amortisation using the effective interest 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 amortised cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating commission income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, commission income is calculated by applying the effective commission rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of commission income reverts to the gross basis.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue / expenses recognition (continued)
For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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.

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

Cash and cash equivalents
Cash and cash equivalents consist of cash balances available to the Company without any restrictions.

Right-of-use assets
The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and allowance for expected credit losses is and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

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

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

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

Short-term leases and leases of low-value assets
The Company applies the short-term lease recognition exemption to its short-term leases. It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value, 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 or the term of the lease. Expenditure for repair and maintenance are charged to profit or loss. Improvements that increase the value or materially extend the life of the related assets are capitalised.

Intangible assets

Intangible assets are measured at cost upon initial recognition. To assess whether an internally generated intangible asset meets the criteria for recognition, the Company classifies the generation of the asset into:

- a research phase; and
- a development phase.

In the research phase of an internal project, the Company cannot demonstrate that an intangible asset exists that will generate probable future economic benefits. Therefore, this expenditure is recognised as an expense when it is incurred. An intangible asset arising from development phase of an internal project is recognised if, and only if, the Company can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at each financial year-end, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets comprise licenses and computer software and are amortised over a useful life of 4-5 years.

The carrying values of intangible assets 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.

Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

These calculations are corroborated by valuation multiples or other available fair value indicators.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses is recognised profit or loss in those expense categories which are consistent with the function of the impaired asset. Except in case of goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset’s or cash-generating unit’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.
Impairment loss recognised against carrying value of goodwill is not reversed in subsequent periods.

Operating leases
Operating lease payments, for assets excluded in IFRS 16, are recognised as expenses in profit or loss on a straight-line method basis over the lease contract period.

Accounts payable and accruals
Accounts payable and accruals are initially measured at fair value and subsequently remeasured at amortised cost. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed or not.

Zakat
Zakat is provided on an accrual basis, and in accordance with the regulations of the Zakat, Tax and Customs Authority (“ZATCA), formerly known as General Authority of Zakat and Tax (“GAZT”). Zakat, as clarified by SOCPA dated 3 Rajab 1440H (corresponding to 1 May 2019), is considered to be a liability of the Company and are accordingly recognised in the statement of profit or loss and other comprehensive income and accrued in the statement of financial position.

Borrowings
Commission bearing funding from financial institutions and shareholders are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EPR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included in commission expense in profit or loss.

Employees' terminal benefits
The Company operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws 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 statement of financial position with a corresponding effect to retained earnings through other comprehensive income in the year in which they occur. Remeasurements are not reclassified to profit or loss in subsequent years.

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 Company recognises related restructuring costs.

Net commission expense is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in profit or loss:

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statutory reserve
As required by Saudi Arabian Regulations for Companies and the Company's By-Laws, 10% of profit for the year should be transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital.

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Company receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

5 SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES

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

Allowance for expected credit loss on financial assets
The measurement of allowance for expected credit loss 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 allowance for expected credit loss 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 allowance.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's internal credit grading model, which assigns PDs to the individual grades
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowance for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as gross domestic product, inflation, average consumer prices, and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings

The Company reviews its Murabaha receivables at each reporting date to assess whether a specific provision for credit losses should be recorded in the statement of profit or loss and other comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

Fair value of repossessed assets held for sale
The Company determines the fair value of repossessed assets held for sale which required certain estimates and assumptions. The Company engage independent external valuers to determine the fair value.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms of two to three years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. In doing so, it considers all relevant factors that create an economic incentive for it to exercise the renewal.

After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (i.e., a change in business strategy). The Company included the renewal period as part of the lease term for leases of commercial space due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on operation if a replacement is not readily available.

Useful lives of property and equipment and intangible assets

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

Estimate of zakat

The Company’s zakat and tax charge on ordinary activities is the sum of the total zakat and tax charges. The calculation of the Company’s zakat and total taxes charge involves a degree of estimation and judgment in respect of certain items whose treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process.

6 GRANT INCOME AND LOSS ON RESTRUCTURING OF MURABAHA RECEIVABLES, NET

The following items are related to COVID-19 modifications related to Murabaha receivables under SAMA deferred payments program and grant received against it from SAMA:

	31 December 2022 SR	31 December 2021 SR
Modification loss on restructuring of Murabaha receivables	**(1,783,349)**	(6,586,750)
Grant income on SAMA deferred payment program (note 26)	**5,223,590**	16,558,056
	3,440,241	9,971,306

7 GENERAL AND ADMINISTRATIVE EXPENSES

	31 December 2022 SR	31 December 2021 SR
Salaries and employees’ related cost	**21,566,428**	13,054,984
Professional and legal fees	**9,331,716**	3,276,267
Utilities and IT infrastructure expense	**3,066,795**	2,720,874
Saudi Credit Bureau (SIMAH) expense	**2,502,974**	1,746,585
Office expense	**1,130,941**	907,633
Health insurance expense	**1,295,684**	802,748
Rent expense	**1,006,100**	447,557
Dues and subscription	**951,878**	76,591
Government fees	**627,026**	620,630
Other expenses	**2,287,229**	1,212,020
	43,766,771	24,865,889

8 SELLING AND MARKETING EXPENSES

	31 December 2022 SR	31 December 2021 SR
Salaries and employees' related cost	**11,033,228**	7,414,707
Commission expense	**5,723,185**	2,211,170
Advertisement and marketing expense	**2,535,112**	704,896
	19,291,525	10,330,773

9 ZAKAT

The movement in the zakat provision for the year is as follows:

	31 December 2022 SR	31 December 2021 SR
At the beginning of the year	**4,372,991**	853,361
Charge for the year	**6,102,220**	4,457,430
Payment during the year	**(4,512,302)**	(937,800)
At the end of the year	**5,962,909**	4,372,991

Zakat expense

The calculation of estimated zakat expense for the year is as follows:

		31 December 2022 SR	31 December 2021 SR
Source of funds	***A***	**437,051,144**	252,843,227
Assets subject to zakat	***B***	**489,310,738**	439,186,692
Total assets	***C***	**903,355,591**	642,163,386
Zakat base	***A*B/C***	**236,732,711**	172,923,874
Estimated zakat expense for the year at 2.5%		**6,102,220**	4,457,430

Status of assessments

As at 31 December 2022, the Company had filed its zakat returns with ZATCA for all years up to 2021.

10 RIGHT-OF-USE ASSETS

The Company's lease comprised of its office building with the lease term of five years.

	2022 SR	2021 SR
Cost		
At the beginning of the year	**7,923,882**	3,779,705
Addition during the year	**-**	7,923,882
Termination of lease	**-**	(3,779,705)
At the end of the year	**7,923,882**	7,923,882
Accumulated depreciation		
At the beginning of the year	**1,300,936**	2,015,844
Depreciation charge for the year	**1,419,204**	1,972,882
Termination of lease	**-**	(2,687,790)
At the end of the year	**2,720,140**	1,300,936
Net book value		
At 31 December	**5,203,742**	6,622,946

11 PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for calculation of depreciation are as follows:

Furniture and fixtures	3 years
Office and computer equipment	4 years
Vehicles	4 years

	2022			
	Furniture and fixtures SR	**Office and computer equipment SR**	**Vehicles SR**	**Total SR**
Cost				
At the beginning of the year	**3,448,654**	**995,042**	**938,607**	**5,382,303**
Additions during the year	**686,934**	**4,972,954**	**-**	**5,659,888**
At the end of the year	**4,135,588**	**5,967,996**	**938,607**	**11,042,191**
Accumulated depreciation				
At the beginning of the year	**3,412,356**	**547,900**	**283,127**	**4,243,383**
Depreciation charge for the year	**427,062**	**1,126,344**	**207,500**	**1,760,906**
At the end of the year	**3,839,418**	**1,674,244**	**490,627**	**6,004,289**
Net book value				
At 31 December 2022	**296,170**	**4,293,752**	**447,980**	**5,037,902**

	2021			
	Furniture and fixtures SR	Office and computer equipment SR	Vehicles SR	Total SR
Cost				
At the beginning of the year	3,429,456	704,808	108,600	4,242,864
Additions during the year	19,198	290,234	830,007	1,139,439
At the end of the year	3,448,654	995,042	938,607	5,382,303
Accumulated depreciation				
At the beginning of the year	3,133,718	399,935	108,600	3,642,253
Depreciation charge for the year	278,638	147,965	174,527	601,130
At the end of the year	3,412,356	547,900	283,127	4,243,383
Net book value				
At 31 December 2021	36,298	447,142	655,480	1,138,920

12 INTANGIBLE ASSETS

The estimated useful lives of the intangible assets for calculation of amortisation are as follows:

Licenses	4-5 years
Computer software	4 years

12 INTANGIBLE ASSETS (continued)

	2022			
	Licenses SR	**Computer software SR**	**Work in progress SR**	**Total SR**
Cost				
At the beginning of the year	**1,171,613**	**3,336,287**	**-**	**4,507,900**
Additions during the year	**1,510,150**	**24,696**	**4,541,677**	**6,076,523**
At the end of the year	**2,681,763**	**3,360,983**	**4,541,677**	**10,584,423**
Accumulated amortisation				
At the beginning of the year	**433,114**	**2,862,194**	**-**	**3,295,308**
Amortisation charge for the year	**260,352**	**346,119**	**-**	**606,471**
At the end of the year	**693,466**	**3,208,313**	**-**	**3,901,779**
Net book value				
At 31 December 2022	**1,988,297**	**152,670**	**4,541,677**	**6,682,644**

	2021			
	Licenses SR	Computer software SR	Work in progress SR	Total SR
Cost				
At the beginning of the year	420,000	3,163,403	-	3,583,403
Additions during the year	751,613	172,884	-	924,497
At the end of the year	1,171,613	3,336,287	-	4,507,900
Accumulated amortisation				
At the beginning of the year	308,604	2,257,975	-	2,566,579
Amortisation charge for the year	124,510	604,219	-	728,729
At the end of the year	433,114	2,862,194	-	3,295,308
Net book value				
At 31 December 2021	738,499	474,093	-	1,212,592

13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of:

	31 December 2022 SR	31 December 2021 SR
Bank balance – current accounts	**33,269,740**	36,597,918
Brokerage account – cash	**-**	126,994
	33,269,740	36,724,912

Bank current accounts are with counterparties who have investment grade credit ratings, as rated by international rating agencies.

14 MURABAHA RECEIVABLES

Murabaha receivables have an original term period between 1 to 5 years:

14(a) Total receivables

	31 December 2022 SR	31 December 2021 SR
Gross receivables	**1,037,012,822**	680,231,944
Less: unearned finance income	**(209,534,622)**	(102,951,842)
	827,478,200	577,280,102
Less: allowance for expected credit loss	**(15,215,276)**	(8,536,200)
Net receivables	**812,262,924**	568,743,902

All the financing facilities provided by Company are Shariah compliant, accordingly they are unconventional in nature.

14(b) Movement in allowance for expected credit loss

	31 December 2022 SR	31 December 2021 SR
Balance at the beginning of the year	**8,536,200**	6,785,440
Allowance for expected credit loss for the year	**9,597,798**	1,750,760
Written off during the year	**(2,918,722)**	-
Balance at the end of the year	**15,215,276**	8,536,200

14(c) Expected maturity

The expected maturity of Murabaha receivables is as follows:

	31 December 2022 SR	31 December 2021 SR
Within 1 year	**431,250,485**	388,079,227
1 - 2 years	**133,771,138**	110,581,394
2 - 3 years	**258,291,110**	43,883,080
3 - 4 years	**3,859,782**	29,547,620
4 – 5 years	**305,685**	5,188,781
Total	**827,478,200**	577,280,102

14 MURABAHA RECEIVABLES (continued)

14(d) Aging of receivables (past due but not impaired)

As at reporting date, the ageing of past due receivables are as follows:

	< 30 days SR	31 - 60 days SR	61 – 90 days SR	91 – 120 days SR	121 – 180 days SR	181 – 360 days SR	Above360 days SR	Total SR
31 December 2022								
Receivables	**82,410,523**	**80,112,951**	**51,565,537**	**5,860,174**	**3,705,251**	**5,210,160**	**15,792,404**	**244,657,000**
31 December 2021								
Receivables	51,357,779	34,417,257	55,063,186	4,751,132	20,332,843	7,473,584	3,711,152	177,106,933

14(e) Economic sector risk concentration for the receivables is as follows

Sector concentration	**31 December 2022**	31 December 2021
Retail business	**35.90%**	30.55%
Services	**35.09%**	34.96%
Contracting	**13.33%**	17.54%
Industrial	**15.57%**	16.32%
Trading	**0.11%**	0.63%

14(f) Collateral

The Company in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the receivables. These collaterals mostly include real estate and Kafalah guarantees. The collaterals are held against receivables and are managed against relevant exposures at their net realizable values. The value of real estate collateral as at 31 December 2022 amounted to SR 423.8 million (2021: SR 375.4 million).

15 REPOSSESSED ASSETS HELD FOR SALE

During 2022, the Company acquired a real estate property including its moveable assets against defaulted Murabaha receivables. The real estate property valuations have been conducted by two independent valuers who hold memberships of Saudi Authority for Accredited Valuers and per both of them the market value of the repossessed assets is more than carrying value of the related Murabaha receivables. Accordingly, as at 31 December 2022, the repossessed assets have been recognised at the carrying value of Murabaha receivables amounting to SR 25.7 million. The Company is currently under the process of finding the buyer to sale the repossessed assets.

16 PREPAYMENTS AND OTHER ASSETS

	31 December 2022 SR	31 December 2021 SR
Receivable from aggregators	**4,969,146**	6,603,302
Deferred commission	**3,780,243**	1,928,204
Due from related parties (note 23)	**2,442,883**	470,714
Prepaid expenses	**1,643,177**	943,257
Employee receivables	**388,905**	104,388
Advances to suppliers	**273,749**	341,798
Capital advances	**90,188**	3,934,274
Receivable on sale of collateral	**-**	2,112,832
Others	**694,772**	240,774
	14,283,063	16,679,543

17 INVESTMENTS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The table below shows the details of the investments held by the Company at fair value through other comprehensive income:

		31 December 2022 SR	31 December 2021 SR
A	Equity instruments	**892,850**	892,850
B	Debt instruments	**-**	3,908,511
		892,850	4,801,361

A – Equity instruments
On 12 December 2017, the Company subscribed 2.33% shareholding in Saudi Company for Registration of Financial Leasing Contracts (“Registration Company”), registered in the Kingdom of Saudi Arabia. The Registration Company has been formed with other finance and leasing companies registered in the Kingdom of Saudi Arabia for registration of contracts relating to financial leases and amendments and registration and transfer of title deeds of the assets under the finance leases arrangements.

B – Debt instruments
The Company had classified its investments in sukuk at fair value through other comprehensive income. During the year, the Company disposed-off all of its investment in sukuk and realised the proceeds on it. The table below shows the details of the investments in sukuk held by the Company:

		31 December 2022 SR	31 December 2021 SR
(I)	Dar Al Arkan	**-**	3,908,511
(II)	Arabian Centres Company	**-**	-
		-	3,908,511

(I) – Dar Al Arkan
The Company had invested in sukuk of Dar Al Arkan in November 2020 with face value of USD 4 million (SR 15 million) having coupon rate of 3.375% semi-annual.

17 INVESTMENTS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

The movement of the investment is given as follows:

	31 December 2022 SR	31 December 2021 SR
Balance at the beginning of the year	**3,908,511**	15,178,200
Interest income recognised in profit or loss	**33,172**	787,783
Fair value gain recognised in other comprehensive income, net	**79,255**	483,542
Interest received	**-**	(632,888)
Disposals	**(4,020,938)**	(11,908,126)
Balance at the end of the year	**-**	3,908,511

(II) – Arabian Centres Company

The Company has invested in sukuk of Arabian Centres Company in November 2020 with face value of USD 4.87 million (SR 18.26 million) having coupon rate of 2.688% semi-annual.

The movement of the investment is given as follows:

	31 December 2022 SR	31 December 2021 SR
Balance at the beginning of the year	**-**	18,501,374
Interest income recognised in profit or loss	**-**	484,912
Fair value gain recognised in other comprehensive income, net	**-**	673,284
Interest received	**-**	(490,805)
Disposals	**-**	(19,168,765)
Balance at the end of the year	**-**	-

18 ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2022 SR	31 December 2021 SR
Customer deposits	**47,507,267**	16,779,913
Employees related accruals	**7,985,236**	5,122,231
Accrued expenses	**5,861,732**	4,037,498
Unearned facility fees	**5,719,627**	4,460,358
Deferred grant income	**474,871**	500,081
Others	**998,775**	1,366,917
	68,547,508	32,266,998

19 LEASE LIABILITY

The lessee's incremental borrowing rate applied to the lease liability is 6.48%. The movement of the lease liability is given:

	2022 SR	2021 SR
Balance at the beginning of the year	**7,398,546**	909,297
Finance charge for the year	**403,033**	484,119
Addition during the year	**-**	7,923,882
Payment made during the year	**-**	(826,837)
Termination of lease	**-**	(1,091,915)
Balance at the end of the year	**7,801,579**	7,398,546

20 BORROWINGS

The table below shows the details of the borrowings obtained by the Company:

		31 December 2022 SR	31 December 2021 SR
A	Riyad Financing Fund	**55,634,539**	55,630,750
B	The Saudi Investment Bank	**42,243,711**	-
C	Borrowings from a government entity	**222,080,610**	143,398,689
D	Riyad Bank	**48,816,886**	-
		368,775,746	199,029,439
	Current portion	**125,514,167**	62,961,896
	Non-current portion	**243,261,579**	136,067,543
		368,775,746	199,029,439

The movement of the borrowings is given as follows:

	31 December 2022 SR	31 December 2021 SR
Balance at the beginning of the year	**199,029,439**	146,226,993
Proceeds from borrowings	**259,365,000**	105,000,000
Repayment of borrowings	**(97,238,609)**	(59,283,187)
Finance cost for the year	**17,850,756**	11,386,753
Government grant on borrowings from a government entity	**(10,230,840)**	(4,301,120)
Balance at the end of the year	**368,775,746**	199,029,439

All borrowing facilities of the Company are Shariah compliant financing arrangements and are unconventional in nature.

A – Riyad Financing Fund

During 2021, the Company entered into Musharakah arrangement with Riyad Financing Fund to get finance as working capital support to the Company to finance its customers with initial present value of such loan being recorded at SR 55 million with maturity in November 2026. Riyad Financing Fund as partner to the arrangement is entitled to receive profit as per Musharakah batch rate pro-rated to their respective share (i.e., share in capital contributed). Profit distribution made during the year amounted SR 3.8 million and further periodic profit distributions to be made at three (3) month intervals, up to maturity. First principal distribution date is on 1 February 2024 i.e., 27 months from receipt of cash contribution and periodic principal distributions to be made at three (3) month intervals thereafter, up to maturity.

B – The Saudi Investment Bank

The Company has entered into Shariah compliant credit facility agreement with the Saudi Investment Bank for the amount of SR 50 million to finance and support the Company's expansion plan by increasing the customer base. The facility is secured by personal and in-kind guarantees from the Chairman of Board of Directors and general waiver in favor of the Bank for the proceeds of certain loan receivables classified under Stage 1. During March 2022 and April 2022, the Company has withdrawn two tranches of SR 25 million each from the available facility repayable on quarterly basis with the final instalment due in March 2026 and April 2026 respectively. The facility carries a profit at a fixed rate that is payable on quarterly basis. The drawdown facility has been recorded at its initial present value of SR 50 million less transaction cost of SR 0.3 million. During the year, the Company has paid SR 9.6 million against this facility.

C – Borrowings from a government entity

Before 2020, the Company obtained loans from a government entity amounting to SR 125 million. These are repayable in monthly instalments that commenced in January 2019, with the final instalment due in June 2023. In April 2020, the government entity deferred its payments against the above-mentioned loans for one year effective from March 2020.The accounting impact of these changes in terms of the borrowings has been assessed and are treated as per the requirements of IFRS 9. This resulted in the Company incurring a modification gain of SR 6 million during the year ended 31 December 2020 with respect to the loans received before 2020. As required by the government entity as a condition of defer payments of these borrowings, the Company is required to give one-year deferrals of repayments to the Murabaha customers eligible for this program. This resulted in the Company incurring a corresponding modification loss of SR 10.3 million during the year ended 31 December 2020.

20 BORROWINGS (continued)

Between June 2020 and December 2022, the Company has obtained the following additional loans from the government entity repayable in monthly instalments:

Loan receipt	Commencement of repayment	Final repayment	Loan amount
June 2020	January 2021	December 2023	20,000,000
July 2020	February 2021	January 2024	25,000,000
September 2020	February 2021	January 2024	25,000,000
January 2021	July 2021	June 2024	15,000,000
June 2021	October 2021	September 2024	15,000,000
October 2021	February 2022	January 2025	20,000,000
May 2022	September 2022	August 2025	50,000,000
August 2022	November 2022	October 2025	50,000,000
October 2022	February 2023	January 2026	60,000,000

The above borrowings received by the Company from a government entity carry fixed commission rates that are significantly lower than the prevailing market rates. They also carry a number of conditions, one of which is that equivalent loans should be disbursed to specific types/sectors of customers at reduced rates. The initially recorded benefit on these loans amounted to SR 10.2 million during the year ended 31 December 2022 (31 December 2021: SR 4.30 million) being the impact of "lower than market value" loans obtained by the Company was accounted for as "government grant". Such benefits were recognised, on meeting the conditions attached to the grant on a systematic basis against the expense for which such grant is intended to compensate, in profit or loss in "Income from Murabaha contracts" line item. The government grant not yet recognised in profit or loss as at 31 December 2022 amounted to SR 0.5 million (31 December 2021: SR 0.5 million) and included within "accounts payable and accruals".

D – Riyad Bank

The Company has entered into Shariah compliant credit facility agreement with Riyad Bank for the amount of SR 50 million to finance and support the Company's expansion plan by increasing the customer base. The facility is secured by the guarantee from the Company and certain loan receivables classified under Stage 1. During September 2022 and October 2022, the Company has withdrawn two tranches of SR 25 million each from the available facility that is repayable on quarterly basis with the final instalment due in September 2027. The facility carries a profit at 3month SAIBOR plus a margin that is payable on quarterly basis. The drawdown facility has been recorded at its initial present value of SR 50 million less transaction cost of SR 0.4 million.

21 EMPLOYEES' TERMINAL BENEFITS

Employees' terminal benefits under the defined benefit plan is determined using the projected unit credit method as follows:

21(a) Amount recognised in the statement of financial position

	31 December 2022 SR	31 December 2021 SR
Present value of employees' defined benefit obligation	**3,006,440**	2,002,373

21(b) Movement in the present value of employees' defined benefit obligation

	31 December 2022 SR	31 December 2021 SR
Defined benefit obligation		
As at 1 January	**2,002,373**	2,072,278
Amount recognised as expense for the year	**1,076,193**	646,478
Re-measurement of employees' terminal benefits recognised in other comprehensive income	**145,441**	(276,927)
Paid during the year	**(217,567)**	(439,456)
As at 31 December	**3,006,440**	2,002,373

21 EMPLOYEES' TERMINAL BENEFITS (continued)

21(c) Amount recognised in profit or loss

	31 December 2022 SR	31 December 2021 SR
Current service cost	**1,019,424**	600,195
Commission expense on defined benefit obligations	**56,769**	46,283
	1,076,193	646,478

21(d) Amount recognised in other comprehensive income

	31 December 2022 SR	31 December 2021 SR
Actuarial loss / (gain) due to change in experience adjustments	**362,666**	(198,692)
Actuarial loss / (gain) due to change in financial assumptions	**147,160**	(78,235)
Actuarial gain due to change in demographic assumptions	**(364,385)**	-
	145,441	(276,927)

21(e) Principal actuarial assumptions

The principal actuarial assumptions used in the actuarial valuation at the reporting date are as follows:

	31 December 2022	31 December 2021
Discount rate	**6.00%**	3.00%
Salary increment	**7.00%**	3.00%

21(f) Sensitivity of the actuarial assumptions

The sensitivity analysis of principal actuarial assumptions is presented as follows:

	31 December 2022 SR	31 December 2021 SR
Discount rate +1%	**2,859,279**	1,860,940
Discount rate -1%	**3,169,664**	2,164,500
Salary increment +1%	**3,166,481**	2,162,830
Salary increment -1%	**2,859,279**	1,859,644

22 SHARE CAPITAL

Share capital amounted to SR 150,000,000 as at 31 December 2022 and 31 December 2021 consisting of 15,000,000 shares of SR 10 each, which are fully paid.

23 RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of its activities, the Company transacts business with its related parties. Related parties include its shareholders and their affiliated companies, the Board of Directors, and key management personnel. Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The transactions with related parties are carried out on mutually agreed terms approved by the management of the Company.

23 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The following are the details of major related party transactions during the year:

Compensation of key management personnel of the Company:

	31 December 2022 SR	31 December 2021 SR
Remuneration	**1,188,236**	980,415
Termination and other long-term benefits	**138,738**	168,572
Total compensation paid to key management personnel	**1,326,974**	1,148,987

Transactions with the related party related to the contracts:

Related party	**Relationship**	**Nature of transaction**	**31 December 2022 SR**	31 December 2021 SR
Gheras Al-Khairat Company Limited	Controlled by key management personnel	Income from Murabaha contracts	**-**	580,606

Transactions with the related parties related to the expenses:

Related parties	**Relationship**	**Nature of transaction**	**31 December 2022 SR**	31 December 2021 SR
Alraedah Investment Company	Shareholder	Expenses paid on behalf of the related party	**120,667**	139,373
Alraedah Payments Company (under incorporation)	Controlled by key management personnel	Expenses paid on behalf of the related party	**1,851,500**	-

Due from related parties:
Below are the related party balances included in Prepayments and other assets (note 16):

	31 December 2022 SR	31 December 2021 SR
Alraedah Investment Company	**591,383**	470,714
Alraedah Payments Company (under incorporation)*	**1,851,500**	-
	2,442,883	470,714

* As at the date of approval of these financial statements, the Company is under incorporation. The balance is secured by the personal guarantee of the Company's shareholders.

24 RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk and commission rate risks), credit risk, legal risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by senior management. The most important risks and their management are summarised hereafter.

Foreign currency risk
Foreign currency risk is the risk that the value of financial instruments of the Company will fluctuate due to changes in foreign exchange rates. The Company is not subject to fluctuations in foreign exchange rates in the normal course of its business as neither it undertakes significant transactions nor does it have any significant monetary assets and liabilities denominated in foreign currency.

24 RISK MANAGEMENT (continued)

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company's financial assets including Murabaha receivables amounting SR 813.3 million as well as financial liabilities including borrowings amounting SR 319.9 million at 31 December 2022 are based on fixed rates. The financial liabilities of SR 48.8 million are based on floating rates. The Company's management monitors the fluctuations in commission rates on regular basis and take appropriate measures to minimize the commission rate risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has established a credit policy for corporate borrowers. Furthermore, all the loans are allowed for the maximum term of 60 months.

As per such policy, Murabaha receivables are not granted unless the borrower meets certain basic requirements, which are set out below:

- Corporate Know Your Customer ("KYC") validation of real operation;
- Income earned through cash flows;
- Collateral provided as real estate, unless exempted; and
- Valuation of above mentioned collateral within basic Finance to Value ("FTV") ratios.

The Company monitors its receivables on a weekly basis. Furthermore, most of the receivables are backed by adequate collaterals. In case of receivables past due for three months, the Company takes legal actions against the borrower with an aim to either collect the receivable by selling the collaterals against which the financing is provided or force the customers to regularise their overdue positions.

The table below reflects Company's maximum exposure to credit risk for the components on the statement of financial position:

	31 December 2022 SR	31 December 2021 SR
Cash and cash equivalents	**33,269,740**	36,724,912
Receivable from SAMA	**-**	6,239,210
Murabaha receivables	**812,262,924**	568,743,902
Investments held at fair value through other comprehensive income	**892,850**	4,801,361
Other assets	**12,639,886**	15,736,286
	859,065,400	632,245,671

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2022 and 31 December 2021:

a) Gross carrying value of Murabaha receivables before ECL

	Stage 1 SR	**Stage 2 SR**	**Stage 3 SR**	**Total SR**
31 December 2022	**665,231,724**	**122,200,144**	**40,046,332**	**827,478,200**
31 December 2021	451,530,949	89,480,443	36,268,710	577,280,102

b) Allowance for ECL

	Stage 1 SR	**Stage 2 SR**	**Stage 3 SR**	**Total SR**
31 December 2022	**6,490,565**	**1,441,658**	**7,283,053**	**15,215,276**
31 December 2021	2,554,118	1,472,184	4,509,898	8,536,200

24 RISK MANAGEMENT (continued)

Amounts arising from ECL – Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure based on approved stages of criteria.

Credit risk categorisation
The Company 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 categorisation is 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.

a) 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 Company collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

The Company employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors include GDP growth, inflation and average consumer prices etc.

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

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition, which is determined under basis of Company's staging criteria.

Using its expert credit judgment and, where possible, relevant historical experience, the Company 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.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

c) Modified financial assets
The contractual terms of receivables 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 receivable whose terms have been modified may be derecognised and the renegotiated receivable recognised as a new receivable at fair value in accordance with the Company's 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 is completed on the basis of the approved staging criteria.

The Company may renegotiate receivables from customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Company's policy, receivables' 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.

The revised terms usually include extending the maturity, changing the timing of commission payments and amending other terms attached to the receivables.

24 RISK MANAGEMENT (continued)

d) Definition of 'Default'
A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The obligor is past due for 90 days or more on any credit obligations to the Company including principal instalments and interest payments.
- The Company considers that the obligor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any).

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

e) Incorporation of forward looking information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on external actual and forecast information, the Company formulates a view of the future direction of relevant economic variables. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom of Saudi Arabia and selected private sector and academic forecasters.

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

f) Measurement of ECL
The key inputs into the measurement of ECL are the term structure of the below given variables. These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on models and assessed using tools tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising 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. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the recoveries and costs incurred in the process to arrive at the estimates.

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 amortisation.

The Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of receivables.

Legal risk
Title deed of the real estate properties are registered in the name of the Company. The enforceability of any related rights and obligations are subject to interpretation and enforceability in the relevant courts of law.

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

24 RISK MANAGEMENT (continued)

a) Analysis of financial assets and financial liabilities according to when they are expected to be recovered or settled

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

31 December 2022 Amounts in SR	**Within 3 months**	**3-12 months**	**1-5 years**	**No fixed maturity**	**Total**
Financial assets					
Cash and cash equivalents	**33,269,740**	**-**	**-**	**-**	**33,269,740**
Murabaha receivables	**177,602,410**	**242,628,419**	**392,032,095**	**-**	**812,262,924**
Other assets	**8,633,632**	**-**	**-**	**-**	**8,633,632**
Investments held at FVOCI	**-**	**-**	**-**	**892,850**	**892,850**
Total financial assets	**219,505,782**	**242,628,419**	**392,032,095**	**892,850**	**855,059,146**
Financial liabilities					
Accounts payable	**5,803,976**	**13,687,426**	**28,015,865**	**-**	**47,507,267**
Payables to SAMA	**71,724,122**	**140,646,016**	**-**	**-**	**212,370,138**
Borrowings	**29,845,935**	**93,889,291**	**245,040,520**	**-**	**368,775,746**
Lease liability	**2,721,607**	**708,290**	**4,371,682**	**-**	**7,801,579**
Total financial liabilities	**110,095,640**	**248,931,023**	**277,428,067**	**-**	**636,454,730**
Total maturity gap	**109,410,142**	**(6,302,604)**	**114,604,028**	**892,850**	**218,604,416**
Cumulative maturity gap	**109,410,142**	**103,107,538**	**217,711,566**	**218,604,416**	

31 December 2021 Amounts in SR	Within 3 Months	3-12 Months	1-5 Years	No fixed maturity	Total
Financial assets					
Cash and cash equivalents	36,724,912	-	-	-	36,724,912
Receivable from SAMA	6,239,210	-	-	-	6,239,210
Murabaha receivables	195,123,496	186,961,747	186,658,659	-	568,743,902
Other assets	9,291,236	-	-	-	9,291,236
Investments held at FVOCI	-	-	3,908,511	892,850	4,801,361
Total financial assets	247,378,854	186,961,747	190,567,170	892,850	625,800,621
Financial liabilities					
Accounts payable	1,714,528	4,955,176	10,110,209	-	16,779,913
Payables to SAMA	40,710,289	81,092,213	89,078,650	-	210,881,152
Borrowings	11,012,734	51,949,162	136,067,543	-	199,029,439
Lease liability	367,837	1,103,512	5,927,197	-	7,398,546
Total financial liabilities	53,805,388	139,100,063	241,183,599	-	434,089,050
Total maturity gap	193,573,466	47,861,684	(50,616,429)	892,850	191,711,571
Cumulative maturity gap	193,573,466	241,435,150	190,818,721	191,711,571	

24 RISK MANAGEMENT (continued)

b) Analysis of undiscounted value of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date.

31 December 2022 Amounts in SR	**Less than 3 months**	**3-12 months**	**1-5 years**	**Total**
Accounts payable	**5,803,976**	**13,687,426**	**28,015,865**	**47,507,267**
Payables to SAMA	**74,942,653**	**144,531,903**	**-**	**219,474,556**
Lease liability	**2,811,569**	**937,190**	**4,685,949**	**8,434,708**
Borrowings	**37,498,639**	**107,928,370**	**262,187,655**	**407,614,664**
Total	**121,056,837**	**267,084,889**	**294,889,469**	**683,031,195**

31 December 2021 Amounts in SR	Less than 3 months	3-12 months	1-5 years	Total
Accounts payable	1,714,528	4,955,176	10,110,209	16,779,913
Payables to SAMA	43,720,687	86,779,669	90,732,146	221,232,502
Lease liability	937,190	937,190	6,560,328	8,434,708
Borrowings	14,336,564	60,124,705	149,360,081	223,821,350
Total	60,708,969	152,796,740	256,762,764	470,268,473

Maturity analysis of assets and liabilities

31 December 2022 Amounts in SR	**Within 12 Months**	**After 12 Months**	**Total**
Assets			
Cash and cash equivalents	**33,269,740**	**-**	**33,269,740**
Murabaha receivables	**420,230,829**	**392,032,095**	**812,262,924**
Prepayments and other assets	**14,283,063**	**-**	**14,283,063**
Repossessed assets held for sale	**25,722,726**	**-**	**25,722,726**
Investments held at FVOCI	**-**	**892,850**	**892,850**
Right-of-use assets	**1,419,201**	**3,784,541**	**5,203,742**
Property and equipment	**-**	**5,037,902**	**5,037,902**
Intangible assets	**-**	**6,682,644**	**6,682,644**
Total assets	**494,925,559**	**408,430,032**	**903,355,591**
Liabilities			
Accounts payable and accruals	**40,531,643**	**28,015,865**	**68,547,508**
Zakat payable	**5,962,909**	**-**	**5,962,909**
Payables to SAMA	**212,370,138**	**-**	**212,370,138**
Borrowings	**123,735,226**	**245,040,520**	**368,775,746**
Lease liability	**3,429,897**	**4,371,682**	**7,801,579**
Employees' terminal benefits	**-**	**3,006,440**	**3,006,440**
Total liabilities	**386,029,813**	**280,434,507**	**666,464,320**
Net	**108,895,746**	**127,995,525**	**236,891,271**

24 RISK MANAGEMENT (continued)

31 December 2021 Amounts in SR	Within 12 Months	After 12 Months	Total
Assets			
Cash and cash equivalents	36,724,912	-	36,724,912
Receivable from SAMA	6,239,210	-	6,239,210
Murabaha receivables	382,085,243	186,658,659	568,743,902
Prepayments and other assets	16,679,543	-	16,679,543
Investments held at FVOCI	-	4,801,361	4,801,361
Right-of-use assets	1,419,201	5,203,745	6,622,946
Property and equipment	-	1,138,920	1,138,920
Intangible assets	-	1,212,592	1,212,592
Total assets	443,148,109	199,015,277	642,163,386
Liabilities			
Accounts payable and accruals	32,266,998	-	32,266,998
Zakat payable	4,372,991	-	4,372,991
Payables to SAMA	121,802,502	89,078,650	210,881,152
Borrowings	62,961,896	136,067,543	199,029,439
Lease liability	1,471,349	5,927,197	7,398,546
Employees' terminal benefits	-	2,002,373	2,002,373
Total liabilities	222,875,736	233,075,763	455,951,499
Net	220,272,373	(34,060,486)	186,211,887

Capital management

The Company's policy is to maintain a strong capital base to maintain creditor and market confidence and to sustain future development of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders. The Company's objectives for managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing the services commensurately with the level of risk.

25 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 Company.

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Company include cash and bank balances, Murabaha receivables, investment held at fair value through other comprehensive income and other receivables. Financial liabilities of the Company include borrowings, payable to SAMA, lease liability and accounts payable.

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The Company 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 Company does not have any financial asset or financial liability carried at fair value in these financial statements except for investment in Saudi Company for Registration of Financial Leasing Contracts held at fair value through other comprehensive income amounting SR 892,850 which has been categorised as Level 2 of fair value hierarchy (31 December 2021: SR 4,801,361 which comprised of investment in Saudi Company for Registration of Financial Leasing Contracts of SR 892,850 categorised as Level 2 of fair value hierarchy and investment in sukuk of SR 3,908,511 categorised as Level 1 of fair value hierarchy (note 17).

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

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

There have been no transfers between various fair value hierarchy level during the current or prior year. Management believes that the fair value of financial assets and liabilities at the reporting date approximate their carrying values.

The financial assets and liabilities of the Company are categorised as follows, which approximate to their fair value:

Financial instruments by category	**31 December 2022 SR**	**31 December 2021 SR**
Financial assets – at amortised cost		
Cash and cash equivalents	**33,269,740**	36,724,912
Receivable from SAMA	**-**	6,239,210
Murabaha receivables	**812,262,924**	568,743,902
Other assets	**8,633,632**	9,291,236
	854,166,296	620,999,260
Financial assets – at fair value through other comprehensive income		
Investments at fair value through other comprehensive income ("FVOCI")	**892,850**	4,801,361
Financial liabilities – at amortised cost		
Accounts payable	**47,507,267**	16,779,913
Payables to SAMA	**212,370,138**	210,881,152
Borrowings	**368,775,746**	199,029,439
Lease liability	**7,801,579**	7,398,546
	636,454,730	434,089,050

26 SAMA PROGRAMS

SAMA programs and initiatives launched

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

- Deferred payments program;
- Funding for lending program;
- Loan guarantee program; and
- Point of sale ("POS") and e-commerce service fee support program.

The Company has only participated in the deferred payment programs as mentioned above up till 31 March 2022.

During April 2020, SAMA has issued a guidance around additional COVID-19 support measures for Micro, Small and Medium Enterprises ("MSMEs") that the finance companies will need to undertake in relation to MSMEs deferred payments program. The Company has considered the guidance issued and implemented in the year ended 31 December 2022.

Deferred payment program – March 2020

As part of the deferred payments program, the Company is required to defer payments for six months (from March 2020 to September 2020) on the eligible microfinance facilities. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company has effected the payment relief by extending the tenure of the applicable financings granted with no additional costs to be borne by the customers. The accounting impact of these changes in the terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9. This has resulted in the Company recognising initially a day 1 modification loss of SR 5.9 million with respect to participating Murabaha facilities granted to its customers, which was recognised in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Pursuant to SAMA deferred payments program, the Company under an agreement with SAMA, received a loan amounting to SR 100.8 million, as profit-free deposit. Subsequently, management identified certain differences in the calculation based on which an amount of SR 100.8 million was derived. As a result, it was determined that an amount of SR 19.6 million should be refunded to SAMA and this was re-confirmed by SAMA and paid in July 2020. The revisited net amount payable to SAMA against this loan after repayment is SR 81.2 million. The amount is repayable to SAMA over the period of 3.5 years in equal monthly instalments, with an initial grace period of 6 months. During 2022, the Company has repaid SR 27.1 million against this facility (2021: SR 27.1 million). The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted initially in a total income of SR 10.4 million, which was recognised in profit or loss immediately. The management has exercised certain judgements in the recognition and measurement of this grant income.

Deferred payment program – September 2020

In September 2020, SAMA announced to extend the SAMA deferred payments program for three months from September 2020 until December 2020. Pursuant to this program, the Company received a loan amounting to SR 73.1 million, as profit-free deposit. The amount is repayable to SAMA over the period of 1.25 years in equal monthly instalments, with an initial grace period of 4 months. During 2022, the Company has repaid SR 19.5 million against this facility (2021: SR 53.6 million). The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 4.2 million, which was recognised in the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognised a day 1 modification loss of SR 3 million with respect to participating Murabaha facilities granted to its customers which was recognised in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payment program – December 2020

In December 2020, SAMA announced to further extend the SAMA deferred payments program for three months from December 2020 until March 2021. Pursuant to this program, the Company received a loan amounting to SR 73.2 million, as profit-free deposit. The amount is repayable to SAMA over the period of 1.5 years in equal monthly instalments, with an initial grace period of 4 months. During 2022, the Company has repaid SR 36.6 million against this facility (2021: SR 36.6 million). The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements.

26 SAMA PROGRAMS (continued)

This resulted in a total income of SR 4.7 million, which was recognised in the profit or loss section of the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognised a day 1 modification loss of SR 3 million with respect to participating Murabaha facilities granted to its customers which was recognised in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payment program – March 2021

In March 2021, SAMA announced to further extend the SAMA deferred payments program for three months from April 2021 until June 2021. Pursuant to this program, the Company received a loan amounting to SR 71 million, as profit-free deposit. The amount is repayable to SAMA over the period of 1.25 years in equal monthly instalments, with an initial grace period of 4 months. During 2022, the Company has repaid SR 47.3 million against this facility (2021: SR 23.7 million). The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 4 million, which was recognised in the profit or loss section of the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognised a day 1 modification loss of SR 2.6 million with respect to participating Murabaha facilities granted to its customers which was recognised in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payment program – June 2021

In June 2021, SAMA announced to further extend the SAMA deferred payments program for three months from June 2021 until September 2021. Pursuant to this program, the Company received a loan amounting to SR 68.2 million, as profit-free deposit. The amount is repayable to SAMA at maturity after the period of 1.5 years. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 6.3 million, which was recognised in the profit or loss section of the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognised a day 1 modification loss of SR 2.2 million with respect to participating Murabaha facilities granted to its customers which was recognised in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payment program – September 2021

In September 2021, SAMA announced to further extend the SAMA deferred payments program for three months from October 2021 until December 2021. Pursuant to this program, the Company received a loan during January 2022 amounting to SR 64.4 million, as profit-free deposit. Effective 1 October 2021, the Company has recorded a receivable amounting to SR 6.2 million, to the extent of benefit of the subsidized funding rate for the loan. The received loan amount is repayable to SAMA at maturity after the period of 1.5 years from the date of receiving the loan. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 6.2 million, which was recognised in the profit or loss section of the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognised a day 1 modification loss of SR 1.8 million with respect to participating Murabaha facilities granted to its customers which was recognised in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payment program – December 2021

In December 2021, SAMA announced to further extend the SAMA deferred payments program for three months from January 2022 until March 2022. Pursuant to this program, the Company received a loan during May 2022 amounting to SR 64.3 million, as profit-free deposit. Effective 1 January 2022, the Company has recorded a receivable amounting to SR 4.7 million, to the extent of benefit of the subsidized funding rate for the loan amounting to SR 64.3 million expected to be received against it as per the conditions attached to this program. The received loan amount is repayable to SAMA at maturity after the period of 1.5 years from the date of receiving the loan. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements.

26 SAMA PROGRAMS (continued)

This resulted in a total income of SR 5.2 million, which was recognised in the profit or loss section of the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognised a day 1 modification loss of SR 1.8 million with respect to participating Murabaha facilities granted to its customers which was recognised in profit or loss immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

27 CONTIGENCIES AND COMMITMENTS

Contingencies
The Company has no contingencies as at 31 December 2022 and 31 December 2021.
Capital commitments
The Company has no capital commitments as at 31 December 2022 and 31 December 2021.
Short-term lease commitments
The Company has short-term lease commitments related to lease of branch office amounted to SR 0.9 million as at 31 December 2022 (31 December 2021: SR 0.2 million).

28 SUBSEQUENT EVENTS

Subsequent to the reporting date:

- During January 2023, the Company has received funds amounting SR 45 million from Small & Medium Enterprises Bank (SME Bank) under borrowing agreement as entered during December 2022 repayable at maturity which carry commission rate that is significantly lower than then prevailing market rate. The agreement carries a number of conditions, one of which is that equivalent loans should be disbursed to specific types/sectors of customers at reduced rates.
- During January 2023 and February 2023, the Company has withdrawn SR 15 million and SR 26 million respectively from the available facility under credit facility agreement as entered during November 2022 repayable on quarterly basis with the final instalment due in January 2027 and February 2027 respectively. The facility carries a profit at a fixed rate that is payable on quarterly basis.

No other material events have occurred subsequent to the reporting date and before the issuance of these financial statements which require adjustments or additional disclosures to these financial statements.

29 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 9 Sha’ban 1444 (H), corresponding to 1 March 2023 (G).