ALJAZIRA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2022
together with the
INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2022

Building a better working world

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF ALJAZIRA CAPITAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

Opinion
We have audited the consolidated financial statements of AlJazira Capital Company, a Saudi closed joint stock company, (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia that is relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Board of Directors and Those Charged with Governance for the Consolidated Financial Statements
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants and the provisions of Companies' Law and the Company's By-laws, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF ALJAZIRA CAPITAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY) (CONTINUED)

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

for Ernst & Young Professional Services

Hussain Saleh Asiri
Certified Public Accountant
License No. (414)

R7 EY CR 1010383821 Ernst & Young Professional Services (Professional LLC)

Riyadh: 6 Ramadhan 1444H
(28 March 2023)

ALJAZIRA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2022
(Saudi Arabian Riyals in thousands)

	Notes	***2022***	*2021*
ASSETS			
Current assets			
Cash and cash equivalents	*5*	**36,254**	8,071
Investments	*6*	**728,327**	260,173
Due from related party	*29*	**--**	4,004
Margin finance receivables	*7*	**1,688,244**	1,945,957
Prepayments and other current assets	*8*	**131,097**	257,875
Total current assets		**2,583,922**	2,476,080
Non-current assets			
Investments	*6*	**230,118**	47,600
Property and equipment, net	*9*	**20,945**	21,588
Intangible assets, net	*10*	**9,224**	3,868
Right-of-use assets, net	*11*	**15,856**	20,731
Deferred tax asset, net		**306**	318
Total non-current assets		**276,449**	94,105
TOTAL ASSETS		**2,860,371**	2,570,185
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Short-term borrowings	*12*	**1,409,149**	1,331,544
Due to related parties		**69,911**	7,400
Accrued expenses and other current liabilities	*13*	**79,398**	56,249
Accrued zakat and income tax	*14*	**49,379**	44,733
Lease liability relating to right-of-use assets	*11*	**5,337**	3,103
Total current liabilities		**1,613,174**	1,443,029
Non-current liabilities			
Employees' end of service benefits	*15*	**39,033**	37,183
Lease liability relating to right-of-use assets	*11*	**10,685**	16,007
Total non-current liabilities		**49,718**	53,190
TOTAL LIABILITIES		**1,662,892**	1,496,219
Shareholder's equity			
Share capital	*16*	**500,000**	500,000
Statutory reserve		**133,938**	120,626
Retained earnings		**546,212**	426,401
Fair value reserve	*6*	**12,561**	23,481
Other reserve		**4,768**	3,458
Total Shareholder's equity		**1,197,479**	1,073,966
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**2,860,371**	2,570,185

The accompanying notes (1) through (33) form an integral part of these consolidated financial statements.

ALJAZIRA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2022
(Saudi Arabian Riyals in thousands)

	Notes	***2022***	*2021*
REVENUES			
Brokerage fees, net	*18*	**112,188**	183,035
Asset and wealth management fees, net	*19*	**91,641**	44,286
Margin finance income		**88,782**	55,517
Investment banking services fees		**40,436**	24,479
Custody services fees		**8,364**	6,546
Gain on fair value through income statement financial instruments, net	*20*	**26,632**	5,632
Dividend income		**7,304**	804
Special commission income		**275**	769
Other operating income		**1,538**	3,372
Total revenues		**377,160**	324,440
EXPENSES			
Salaries and employee related expenses		**121,485**	113,195
Rent and premises related expenses	*21*	**1,274**	1,924
Depreciation on property and equipment	*9*	**4,389**	4,632
Depreciation on right-of-use assets	*11*	**4,491**	4,271
Amortisation on intangible assets	*10*	**1,422**	2,692
General and administrative expenses	*22*	**58,356**	52,099
Special commission expense		**31,443**	10,902
Total operating expenses		**222,860**	189,715
Operating income for the year		**154,300**	134,725
Other expense		**(36)**	(434)
Net income for the year before zakat and income tax		**154,264**	134,291
Zakat and income tax	*14*	**(21,141)**	(16,463)
Net income for the year after zakat and income tax		**133,123**	117,828
Decrease in subsidiaries’ equity obligations	*3(d)*	**--**	447
Net income for the year		**133,123**	118,275
Basic and diluted earnings per share (expressed in SAR per share)	*23*	**2.66**	2.37

The accompanying notes (1) through (33) form an integral part of these consolidated financial statements.

ALJAZIRA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022
(Saudi Arabian Riyals in thousands)

	Notes	***2022***	*2021*
Net income for the year		**133,123**	118,275
Other comprehensive (loss) / income			
Items that will not be reclassified to consolidated statement of income			
Net loss on investment in equity instruments designated at fair value through other comprehensive income	*6*	**(10,920)**	(3,294)
Net gain on re-measurements of provision for employees' end of service benefits	*15*	**1,310**	708
Other comprehensive loss for the year		**(9,610)**	(2,586)
Total comprehensive income for the year		**123,513**	115,689

The accompanying notes (1) through (33) form an integral part of these consolidated financial statements.

ALJAZIRA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
For the year ended 31 December 2022
(Saudi Arabian Riyals in thousands)

	Equity attributable to Company's shareholder					
	Share capital	**Statutory reserve**	**Retained earnings**	**Fair value reserve**	**Other reserve**	**Total**
Balance at 1 January 2021	500,000	108,798	319,954	26,775	2,750	958,277
Net income for the year	--	--	118,275	--	--	118,275
Other comprehensive (loss) / income	--	--	--	(3,294)	708	(2,586)
Total comprehensive income	--	--	118,275	(3,294)	708	115,689
Transfer to statutory reserve	--	11,828	(11,828)	--	--	--
Balance at 31 December 2021	500,000	120,626	426,401	23,481	3,458	1,073,966
Balance at 1 January 2022	**500,000**	**120,626**	**426,401**	**23,481**	**3,458**	**1,073,966**
Net income for the year	--	--	133,123	--	--	**133,123**
Other comprehensive (loss) / income	--	--	--	(10,920)	1,310	**(9,610)**
Total comprehensive income	**--**	**--**	**133,123**	**(10,920)**	**1,310**	**123,513**
Transfer to statutory reserve	--	13,312	(13,312)	--	--	--
Balance at 31 December 2022	**500,000**	**133,938**	**546,212**	**12,561**	**4,768**	**1,197,479**

The accompanying notes (1) through (33) form an integral part of these consolidated financial statements.

ALJAZIRA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2022
(Saudi Arabian Riyals in thousands)

	Notes	*2022*	*2021*
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		**133,123**	118,275
Adjustments to reconcile net income for the year to net cash used in operating activities:			
Depreciation on property and equipment	*9*	**4,389**	4,632
Depreciation on right-of-use assets	*11*	**4,491**	4,271
Amortisation on intangible assets	*10*	**1,422**	2,692
Unrealised gain on investments	*20*	**(18,924)**	(2,872)
Loss on disposal of property and equipment		**34**	180
Provision for employees' end of service benefits	*15*	**4,569**	6,807
Special commission expense related to lease liabilities	*11*	**486**	776
Zakat and income tax charge		**21,141**	16,463
		150,731	151,224
Changes in operating assets and liabilities:			
Investments		**(642,668)**	180,421
Margin finance receivables		**257,713**	(772,434)
Due from related party		**4,004**	23,673
Prepayments and other current assets		**126,778**	(202,027)
Due to related parties		**62,511**	5,971
Accrued expenses and other current liabilities		**23,149**	14,791
		(17,782)	(598,381)
Employees' end of service benefits paid	*15*	**(1,409)**	(12,810)
Zakat and income tax paid	*14*	**(16,483)**	(6,578)
Net cash used in operating activities		**(35,674)**	(617,769)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	*9*	**(3,784)**	(5,004)
Purchase of intangible assets	*10*	**(6,778)**	(1,665)
Proceeds from disposal of property and equipment		**4**	--
Net cash used in investing activities		**(10,558)**	(6,669)
CASH FLOWS FROM FINANCING ACTIVITIES			
Short-term borrowings, net		**77,605**	632,996
Payment of lease liabilities	11	**(3,190)**	(5,052)
Subsidiaries' equity obligations		**--**	(19,940)
Net cash generated from financing activities		**74,415**	608,004
Net increase / (decrease) in cash and cash equivalents		**28,183**	(16,434)
Cash and cash equivalents at beginning of the year		**8,071**	24,505
Cash and cash equivalents at end of the year	*5*	**36,254**	8,071
Non - cash items			
Net change in fair value of investments measured at fair value through other comprehensive income	*6*	**(10,920)**	(3,294)
Additions to right-of-use assets	*11*	**73**	572

The accompanying notes (1) through (33) form an integral part of these consolidated financial statements.

1. ORGANISATION AND ITS ACTIVITIES

AlJazira Capital Company (the "Company") is a Saudi Closed Joint Stock Company incorporated under Ministerial Resolution No. S/57 dated 20 Safar 1429H (corresponding to 27 February 2008) and was operating under commercial registration number 4030177603 dated 17 Rabi Awal 1429H (corresponding to 25 March 2008). During the year 2011, the commercial registration number of the Company was changed due to the relocation of the Head Office from Jeddah to Riyadh and it is now registered under commercial registration number 1010351313 dated 13 Dhul-Qadah 1433H (corresponding to 29 September 2012). The company has a Branch in Jeddah registered under commercial registration number 4030177603.

The Company is licensed as a financial services company regulated by the Capital Market Authority (the "CMA"). The Company is engaged in dealing, arranging, managing, advising and carrying out custody activities in accordance with the CMA Resolution no. 2-38-2007 dated 8 Rajab 1428H, (corresponding to 22 July 2007) and license number 07076-37.

The Company commenced operations on 5 April 2008, by taking over the brokerage division of Bank AlJazira (the "Bank").

The registered address of the Company is:

AlJazira Capital
King Fahad Road
Al Rahmaniyah District
P.O. Box 20438
Riyadh 11455
Kingdom of Saudi Arabia

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together referred to as the "Group"). During last year the Company lost control of AlJazira Sukuk Fund, and AlJazira Residential Projects Fund was liquidated. Accordingly, the consolidated statement of financial position as at 31 December 2022 and 2021 only represents the position of AlJazira Capital Company. However, the consolidated statement of income for the year ended 31 December 2021 includes the results of AlJazira Capital Company and subsidiaries up to the date of loss of control over AlJazira Sukuk Fund and liquidation of AlJazira Residential Projects Fund. The Company's subsidiaries were as follows:

AlJazira Sukuk Fund

AlJazira Sukuk Fund (the "Fund") is an open-ended fund, managed by AlJazira Capital Company. The Fund commenced its operations dated 4 Muharram 1442H (corresponding to 23 August 2020). The principal activity of the Fund is to invest in Sukuks.

The Fund was consolidated as a subsidiary in consolidated financial statements for the year ended 31 December 2020. During the last year, the Group has reassessed its control over the Fund and after considering the ownership, exposure to variable returns and other factors concluded that the Group has lost its control over the Fund effective from 15 March 2021. Accordingly, the Group had discontinued the consolidation of the Fund in its consolidated financial statements and had classified its interest in the Fund as fair value through income statement.

AlJazira Residential Projects Fund

AlJazira Residential Projects Fund was a close-ended shariah complaint development fund, managed by AlJazira Capital Company. AlJazira Residential Projects Fund (the "Real Estate Fund") commenced its operations dated 1 Rabi Awal 1433H (corresponding to 24 January 2012). The principal activity of the Real Estate Fund was development and sale of land.

1. ORGANISATION AND ITS ACTIVITIES (CONTINUED)

AlJazira Residential Projects Fund (continued)

The Real Estate Fund was consolidated as a subsidiary in consolidated financial statements for the year ended 31 December 2020. During the last year, the Real Estate Fund was liquidated in accordance with the terms and conditions of the Fund effective from 28 February 2021. Accordingly, the Group had ceased to consolidate the Real Estate Fund in its consolidated financial statements.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "Standards") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements as endorsed by Saudi Organisation for Chartered and Professional Accountants ("SOCPA") and in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

2.2 Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for measurement at fair value of derivatives, investments at fair value through income statement and at fair value through other comprehensive income, using the accrual basis of accounting and the going concern concept. Further, employees' end of service benefits are measured at present value of future obligations using the Projected Unit Credit Method.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is the functional and presentation currency of the Group. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.4 Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries until the Group had lost its control over the subsidiary or the subsidiary had been liquidated *(note 1)*. These consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

2.5 Critical accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Significant areas where management has used estimates, assumptions and exercised judgments are as follows:
- Measurement of the expected credit loss allowance – notes 3(b) and 25.2
- Fair value of financial instruments – note 27
- Employees' end of service benefits – notes 3(j) and 15
- Depreciation and amortisation – notes 3(f), 3(g), 9 and 10
- Consolidation of structured entities – note 1 and note 3(d)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current / non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets including deferred tax asset are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

(b) Financial instruments

Recognition and initial measurement

The Group initially recognises financial assets and financial liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus (minus), for an item not at FVTIS, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTIS are expensed in the consolidated statement of income.

Classification and measurement of financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (“FVOCI”) or fair value through income statement (“FVTIS”).

Financial Asset at amortised cost

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Financial Asset at FVOCI

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTIS.

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income (“OCI”). This election is made on an investment-by-investment basis.

Financial Asset at FVTIS

All other financial assets are classified as measured at FVTIS.

Associates are those entities in which the Group has significant influence, but no control or joint control, over the financial and operating policies. The Company, as the Fund Manager of its associates, qualifies for the application of the exemption of equity accounting because the business objective is similar to that of a venture capital organisation in respect of an investment entity. These investments in the funds are designated on initial recognition as measured at FVTIS in accordance with IFRS 9 as the investments are part of a business model that is managed on a fair value basis.

Business model assessment

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Assessment whether contractual cash flows are solely payments of principal and profit

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

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodic reset of profit rates.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTIS	These assets are subsequently measured at fair value. Net gains and losses, any special commission or dividend income, are recognised in the consolidated statement of income.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective commission rate method. The amortised cost is reduced by impairment losses, if any. Special commission income, foreign exchange gains and losses and impairment losses are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in consolidated statement of income.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in the consolidated statement of income unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to the consolidated statement of income.

Reclassifications

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

Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its financial assets carried at amortised cost. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Details of measuring the expected credit loss allowance are provided in note 25.2 to these consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Financial liabilities

The Group classifies its financial liabilities at amortised cost unless it has designated liabilities at FVTIS.

De-recognition

The Group derecognises a financial asset (or where applicable, a part of a financial asset or a part of group of similar financial assets) when the contractual rights to receive the cash flows from the financial asset have expired, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Any cumulative gain / loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in consolidated statement of income on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Offsetting

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

(c) Derivative financial instruments

Derivative financial instruments (i.e. forward exchange agreements) are initially measured at their fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position. The transaction costs associated with these agreements are recognised in the consolidated statement of income.

Derivative financial instruments are carried at their fair value as assets, where the fair value is positive, and as liabilities, where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The Company invests in structured entities with the objective to resell the investment in a short period after the establishment. Structured entities are consolidated when the relationship between the Company and the structured entity indicates that the Company has power over the relevant activities of the structured entity, is exposed to variable returns, and can use that power to affect the variable return exposure. In other cases, the Company may sponsor or have exposure to such an entity but not consolidate it.

For all these investments, the Company analyses whether and to what extent it controls the investee and any underlying entities. A material structured entity is consolidated into the financial statements where the Company controls the structured entity, as per the above determination criteria. As at 31 December 2022, Company's investments in material structured entities do not meet the above criteria of control. Accordingly, such investments are recorded as measured at FVTIS into these consolidated financial statements.

Subsidiary's equity obligations

The subsidiary's equity obligations represent the interest of other unit holders in subsidiary funds, and are classified as current liabilities. Changes in the subsidiary's equity obligations are recorded in consolidated statement of income and presented after "net income for the year after zakat and income tax".

Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary.

When the Company ceases to consolidate an investment because of a loss of control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in the consolidated statement of income. This fair value becomes the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate or a financial asset. In addition, any amounts previously recognised in consolidated statement of other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in consolidated statement of other comprehensive income are reclassified to consolidated statement of income. In case of loss of control over subsidiary, the Company also derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest (NCI) and other components of equity. Any resulting gain or loss is recognised in the consolidated statement of income.

Transactions eliminated on consolidation

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Cash and cash equivalents

Cash and cash equivalents comprise of cash at bank, cash in investment account, cash in hand and short-term highly liquid deposits with an original maturity of three months or less, which are available to the Group without any restrictions.

Cash and cash equivalents are measured at amortised cost in the consolidated statement of financial position.

(f) Property and equipment

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

Subsequent expenditures are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Normal expenditures for repair and maintenance are charged to the consolidated statement of income.

The residual values, useful lives and method of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if required.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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 as follows:

Leasehold improvements	Over the lease period or 24 years, whichever is shorter
Furniture, fixtures and office equipment	4 -10 years
Motor vehicles	4 years

Capital work in progress is stated at cost incurred until the asset is ready for its intended use, thereafter, this cost is capitalised on the related assets. Capital work in progress is not depreciated.

(g) Intangible assets

The Group's intangible assets include computer software and are stated at cost less accumulated amortisation and accumulated impairment losses, if any.

Amortisation on intangible assets is calculated on a straight-line basis over the estimated useful life of 4 to 6 years.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leases

On initial recognition, at inception of the contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Group and the Group can direct the usage of such assets.

Right-of-Use Assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). The right-of-use leased asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

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

Lease Liability

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

After the commencement date, Group measures the lease liability by:
- Increasing the carrying amount to reflect special commission expense on the lease liability.
- Reducing the carrying amount to reflect the lease payments made; and
- Re-measuring the carrying amount to reflect any re-assessment or lease modification.

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.

(i) Accrued expenses and other payables

Accrued expenses and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective commission rate method.

(j) Employees' end of service benefits

The liability for employees' end of service benefits, being a defined benefit plan, is determined using the projected unit credit method with actuarial valuation being conducted at end of annual reporting periods. The related liability recognised in the consolidated statement of financial position is the present value of the end of service benefits obligation at the end of the reporting period.

The discount rate used is the market yield on high quality corporate bonds or government bonds at the reporting date that have maturity dates approximating the terms of the Group's obligations.

Current service cost and the special commission expense arising on the end of service benefit liability are recorded in the consolidated statement of income. Re-measurement of the defined benefit liability, which comprise actuarial gains and losses are recognised immediately in the consolidated statement of other comprehensive income.

Actuarial valuation involves making various assumptions, including the determination of discount rate and future salary increases, which may differ from the actual developments in future. Due to the complexity of valuation and its long-term nature, a defined benefit obligation is highly sensitive to the change in these assumptions. All assumptions are reviewed at each reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the repayment amount is recognised in the consolidated statement of income over the period of borrowings using the effective commission rate method.

(l) Zakat and income tax

Zakat and income tax

Zakat and income tax is computed in accordance with the regulations of the Zakat, Tax, and Customs Authority ("ZATCA") as applicable in the Kingdom of Saudi Arabia.

Zakat and income tax is charged to consolidated statement of income and is payable to the Bank who settles the zakat and income tax liability of the Company as part of its consolidated zakat and income tax return.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

Deferred tax asset is recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is probable that the related tax benefit will be realised.

(m) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

(n) Statutory reserve

In accordance with Company's by-laws and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income for the year to a statutory reserve until such reserve equals 30% of its share capital. This statutory reserve is not available for distribution to shareholder.

(o) Impairment on non-financial assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Impairment on non-financial assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses in respect of non-financial assets recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(p) Revenue recognition

The revenue is recognised when the Group transfers the services to customers at an amount that the Group expects to be entitled to in exchange for those services. The Group applies the following five-step approach to revenue recognition:

- Step 1: Identify the contract with the customer
- Step 2: Identify the separate performance obligations under the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to separate performance obligations
- Step 5: Recognise revenue when (or as) each performance obligation is satisfied

Identify the contract with the customer

The Group carefully evaluates the terms and conditions of the contracts with its customers because revenue is recognised only when performance obligations in contracts with customers are satisfied. A change in the scope or price (or both) of a contract is considered as a contract modification and the Group determines whether this creates a new contract or whether it will be accounted for as part of the existing contract.

Identify the separate performance obligations under the contract

Once the Group has identified the contract with a customer, it evaluates the contractual terms and its customary business practices to identify all the promised services within the contract and determine which of those promised services (or bundles of promised services) will be treated as separate performance obligations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue recognition (continued)

The Group assesses the services promised in a contract with a customer and identifies as a performance obligation either a:

a) service that is distinct; or
b) series of distinct services that are substantially the same and that have the same pattern of transfer to the customer (i.e. each distinct service is satisfied over the time and the same method is used to measure progress).

A service (or bundle of services) is distinct if the customer can benefit from the service on its own or together with other readily available resources (i.e. the service is capable of being distinct) and the service is separately identifiable from other promises in the contract (i.e. the service is distinct within the context of the contract).

The Group provides management services to its customers which are generally provided continuously over the contract period. Accordingly, the services in these contracts generally represent a single performance obligation.

Determine the transaction price

The Group determines transaction price as the amount which it expects to be entitled. It includes an estimate of any variable consideration, the effect of a significant financing component (i.e. the time value of money), the fair value of any non-cash consideration and the effect of any consideration paid or payable to a customer (if any). Variable considerations are limited to the amount for which it is highly probable that a significant reversal will not occur when the uncertainties related to the variability are resolved.

Allocate the transaction price to separate performance obligations

Once the performance obligations have been identified and the transaction price has been determined, transaction price is allocated to the performance obligations, generally in proportion to their stand-alone selling prices (i.e. on a relative stand-alone selling price basis). When determining stand-alone selling prices, the Group is required to use observable information, if available. If stand-alone selling prices are not directly observable, the Group makes estimates based on information that is reasonably available.

Satisfaction of performance obligations

Revenue is recognised only when the Group satisfies a performance obligation by transferring control of a promised service to the customer. Control may be transferred over time or at a point in time. Where a performance obligation is satisfied over time, the Group identifies the progress under the contract based on either of an input or output method which best measures the performance completed to date. The method selected is applied consistently to similar performance obligations and in similar circumstances.

The revenue recognition policy for each revenue stream is as follows:

i) *Brokerage income*
Brokerage income is recognised at a point in time when the related transactions are executed on behalf of the customers at the price agreed in the contract with the customers, net of discounts and rebates. The performance obligation of the Group is satisfied when the Group carries out the transaction, which triggers immediate recognition of the revenue, as the Group will have no further commitments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue recognition (continued)

ii) Asset and wealth management fees
Management fee related to the asset and wealth management is recognised over time based on a fixed percentage of net assets or total assets under management ("asset-based"), or a percentage of returns from net assets ("returns-based") subject to applicable terms and conditions and service contracts with customers and funds. The Group attributes the revenue from management fees to the services provided during the period, because the fee relates specifically to the Group's efforts to transfer the services for that period. As management fees are not subject to clawbacks, the management does not expect any significant reversal of revenue previously recognised.

One-off fees related to the establishment and offering of the asset and wealth management products are recognised when the related performance obligation is satisfied at a point in time basis.

iii) Margin finance fees
Margin finance fees are recognised over time based on customer utilisation of the margin finance facility at the applicable rates agreed in the contract with the customer. The fee is recognised over the life of the facility at the effective commission rate method.

iv) Advisory and investment banking services revenue
Advisory and investment banking services revenue is recognised at a point in time based on services rendered under the applicable service contracts using the five-step approach to revenue recognition above.

v) Custody services fees
Custody services fees are recognised over time based on a fixed percentage of assets under custody.

vi) Special commission income on term deposits
Special commission income for all special commission bearing financial instruments (Murabaha deposits) are recognised over time in the consolidated statement of income using the effective commission rate basis.

vii) Dividend income
Dividend income is recognised at a point in time when the right to receive dividend is established.

viii) Gain / (loss) on fair value through income statement financial instruments
Results arising from investment activities include all gains and losses from changes in fair values and disposal of financial instruments measured at fair value through income statements.

(q) Expenses

Expenses are measured and recognised as a period cost at the time when they are incurred. Expenses related to more than one financial period are allocated over such periods proportionately.

(r) Foreign currency

Transactions in foreign currencies are translated into SAR at the exchange rate at the dates of the transactions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Foreign currency (continued)

Monetary assets and liabilities denominated in foreign currencies are translated into SAR at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are also translated into SAR at the exchange rate at the reporting date.

Foreign exchange differences arising on translation are recognised in the consolidated statement of income as net foreign exchange gains or losses, except for those arising on financial instruments as measured at FVTIS, which are recognised as a component of net gain / loss from financial instruments at FVTIS.

(s) Assets held in trust or in a fiduciary capacity

Assets held in trust or in a fiduciary capacity by the Group are not treated as assets of the Group and accordingly are treated as off-balance sheet items in these consolidated financial statements.

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

4.1 New and amended standards and interpretations

The following new and amended accounting standards and interpretations became applicable for annual periods beginning on or after 1 January 2022. The Group has assessed that the amendments have no significant impact on the Group's consolidated financial statements.

Reference to the conceptual framework – Amendments to IFRS 3
The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

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

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

Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16
The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in consolidated statement of income.

IFRS 9 - Financial Instruments - Fees in the '10 percent' test for derecognition of financial liabilities
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

There are other new standards and interpretations which became applicable for annual periods beginning on or after 1 January 2022 that are not applicable to the Group, therefore, not presented in the notes to these consolidated financial statements.

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS (CONTINUED)

4.2 New and amended standards and interpretations issued but not yet effective and not early adopted

The Group has not applied the following new and amended standards that have been issued but are not yet effective, which will become effective for annual periods on or after 1 January 2023. The Group has not early applied these new amendments and standards in preparing these consolidated financial statements and is currently assessing their impact.

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
In January 2020, the International Accounting Standards Board ("IASB") issued amendments to IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. However, the IASB has subsequently proposed further amendments to IAS 1 and the deferral of the effective date of 2020 amendments to no earlier than 1 January 2024.

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period.

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

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

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12
In May 2021, the IASB issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

(Saudi Arabian Riyals in thousands)

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS (CONTINUED)

4.2 New and amended standards and interpretations issued but not yet effective and not early adopted (continued)

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The amendments apply for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

The new and amended standards and interpretations issued but not yet effective that do not apply to the Group are not presented in the notes to these consolidated financial statements.

5. CASH AND CASH EQUIVALENTS

	2022	*2021*
Cash at bank – current accounts	**36,063**	8,041
Cash in investment account	**161**	--
Cash in hand	**30**	30
	36,254	8,071

6. INVESTMENTS

	Notes	***2022***	*2021*
Current			
Investments at FVTIS	*6.1*	**728,327**	260,173
Non-current			
Investments at FVTIS	*6.1*	**200,057**	6,619
Investment at FVOCI	*6.2*	**30,061**	40,981
		230,118	47,600

6.1 Investments at FVTIS

The investments at FVTIS comprise of the following:

	2022	*2021*
Current		
Investment funds	**723,234**	255,824
Quoted equities	**5,093**	4,349
	728,327	260,173
Non-current		
Investment funds	**200,057**	6,619

(Saudi Arabian Riyals in thousands)

6. INVESTMENTS (CONTINUED)

6.2 Investment at FVOCI

Investment measured at FVOCI represents 2.04 million shares (31 December 2021: 2.04 million shares) in AlJazira Takaful Taawuni Company – the "Investee Company" with a total cost of SAR 17.5 million (31 December 2021: SAR 17.5 million). The fair value of investment is SAR 30.1 million as at 31 December 2022 (31 December 2021: SAR 41.0 million).

Movement of fair value reserve during the year is as follows:

	2022	*2021*
Balance at beginning of the year	**23,481**	26,775
Net change in fair value of investment	**(10,920)**	(3,294)
Balance at end of the year	**12,561**	23,481

7. MARGIN FINANCE RECEIVABLES

The Company extends margin finance facilities on a selective basis to its customers for the purpose of investing in the Saudi equity market. These facilities are extended up to a maximum period of one year and carry profit at agreed special commission rates.

The facilities are collateralised by underlying equities and cash held in the customers' investment accounts.

The Company has assessed the ECL on margin finance receivables and after considering the nature of these receivables, collateral available and history of defaults, the Company has concluded that no material ECL allowance is required against these receivables as at 31 December 2022 (31 December 2021: no material ECL allowance). Detailed information on ECL is in note 25.2 to these consolidated financial statements.

8. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	***2022***	*2021*
Advance against investment	*8.1*	**30,913**	187,500
Asset and wealth management fees receivable		**47,135**	56,375
Deposit with Muqassa		**15,290**	--
Prepayments		**4,269**	3,677
Other assets		**33,490**	10,323
		131,097	257,875

8.1 The advance was paid by the Company to subscribe the units in an investment fund. Subsequent to the year-end the units were issued in favor of the Company.

(Saudi Arabian Riyals in thousands)

9. PROPERTY AND EQUIPMENT, NET

	Leasehold improvement	Furniture, fixture and office equipment	Motor Vehicle	Capital work in progress	Total
Cost:					
At 1 January 2021	81,170	108,154	25	434	189,783
Additions during the year	--	191	564	4,249	5,004
Disposals during the year	(1,338)	(278)	--	--	(1,616)
At 31 December 2021	79,832	108,067	589	4,683	193,171
Additions during the year	398	673	--	2,713	3,784
Transfers during the year	1,074	4,260	--	(5,334)	--
Disposals during the year	--	(1,068)	(25)	--	(1,093)
At 31 December 2022	**81,304**	**111,932**	**564**	**2,062**	**195,862**
Accumulated depreciation:					
At 1 January 2021	66,242	102,120	25	--	168,387
Charge for the year	1,420	3,200	12	--	4,632
Disposals during the year	(1,163)	(273)	--	--	(1,436)
At 31 December 2021	66,499	105,047	37	--	171,583
Charge for the year	1,454	2,794	141	--	4,389
Disposals during the year	--	(1,030)	(25)	--	(1,055)
At 31 December 2022	**67,953**	**106,811**	**153**	**--**	**174,917**
Net book value as at:					
31 December 2022	**13,351**	**5,121**	**411**	**2,062**	**20,945**
31 December 2021	13,333	3,020	552	4,683	21,588

10. INTANGIBLE ASSETS, NET

	2022	*2021*
Cost:		
At the beginning of the year	**20,011**	18,346
Additions during the year	**6,778**	1,665
At the end of the year	**26,789**	20,011
Accumulated amortisation:		
At the beginning of the year	**16,143**	13,451
Charge for the year	**1,422**	2,692
At the end of the year	**17,565**	16,143
Net book value	**9,224**	3,868

As at 31 December 2022 intangible assets include work in progress amounting to SAR 5.2 million (31 December 2021: SAR 1.5 million).

(Saudi Arabian Riyals in thousands)

11. RIGHT-OF-USE ASSETS AND LEASE LIABILITES

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Land and buildings	Office Equipment	Motor Vehicle	Total
Cost:				
At 1 January 2021	35,724	36	307	36,067
Additions during the year	572	--	--	572
Impact of lease modifications - Note 11.1	(1,190)	--	--	(1,190)
At 31 December 2021	35,106	36	307	35,449
Additions during the year	--	--	73	73
Impact of lease modifications - Note 11.1	(457)	--	--	(457)
Terminations	--	--	(307)	(307)
At 31 December 2022	**34,649**	**36**	**73**	**34,758**
Accumulated depreciation:				
At 1 January 2021	10,125	18	304	10,447
Charge for the year	4,259	9	3	4,271
At 31 December 2021	14,384	27	307	14,718
Charge for the year	4,417	9	65	4,491
Terminations	--	--	(307)	(307)
At 31 December 2022	**18,801**	**36**	**65**	**18,902**
Net book value as at:				
31 December 2022	**15,848**	**--**	**8**	**15,856**
31 December 2021	20,722	9	--	20,731

Set out below are the carrying amounts of lease liabilities recognised and the movements during the year:

	2022	*2021*
At the beginning of the year	**19,110**	24,004
Additions during the year	**73**	572
Accretion of special commission expense	**486**	776
Impact of lease modification – Note 11.1	**(457)**	(1,190)
Payments	**(3,190)**	(5,052)
At the end of the year	**16,022**	19,110

The above mentioned lease liabilities are disclosed in the consolidated statement of financial position as follows:

	2022	*2021*
Current liabilities	**5,337**	3,103
Non-current liabilities	**10,685**	16,007
	16,022	19,110

11.1 Modification in respect of right-of-use-assets and lease liabilities due to closure of certain investment centers and changes in the lease payment terms.

11.2 Short-term lease payments and leases of low value assets are not material to the consolidated financial statements and recognised as rent expense on a straight-line basis over the lease term.

(Saudi Arabian Riyals in thousands)

12. SHORT-TERM BORROWINGS

Short-term borrowings represent an unsecured Murabaha facility of SAR 2.3 billion (31 December 2021: SAR 2.3 billion) from Bank AlJazira. As at 31 December 2022, the amount of this facility utilised by the Company is SAR 1.4 billion (31 December 2021: SAR 1.3 billion). The financing carries commission rates ranging from 4.78% to 5.05% per annum (31 December 2021: 0.87% to 1.20% per annum) payable at maturity. Accrued special commission expense on the facility as at 31 December 2022 amounted to SAR 1.8 million (31 December 2021: SAR 5.0 million).

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	Notes	***2022***	*2021*
Employees related liabilities		**36,539**	24,008
Accrued expenses		**20,790**	23,448
Directors' remuneration	*29*	**2,961**	2,058
Other liabilities	*13.1*	**19,108**	6,735
		79,398	56,249

13.1 Other liabilities include the negative fair value of the forward exchange agreement amounting to SAR 0.94 million (31 December 2021: nil). The notional value of the forward exchange agreement is SAR 80.9 million and will mature on 28 December 2023.

14. ACCRUED ZAKAT AND INCOME TAX

In accordance with ZATCA Regulations, the Company is subject to zakat in respect of the Saudi shareholders of the Bank and to income taxes in respect of the foreign shareholders of the Bank.

In accordance with Ministerial Resolution 1005, consolidated zakat and income tax returns are filed by the Bank for Bank AlJazira Group. The Company's zakat and income tax liabilities charged in these consolidated financial statements are an allocation of zakat and income tax liabilities of Bank AlJazira Group. These liabilities are payable by the Company to the Bank, who ultimately settles them with ZATCA.

14.1 Movement in zakat and income tax accrual

The movement during the year is as follows:

	Note	***Zakat***	***Income tax***	***Total***
31 December 2022				
At beginning of the year		**43,769**	**964**	**44,733**
Provision for the year	*14.2*	**19,953**	**1,176**	**21,129**
Payments made to the Bank		**(15,519)**	**(964)**	**(16,483)**
At the end of the year		**48,203**	**1,176**	**49,379**
31 December 2021				
At beginning of the year		34,445	383	34,828
Provision for the year	*14.2*	15,519	964	16,483
Payments made to the Bank		(6,195)	(383)	(6,578)
At the end of the year		43,769	964	44,733

14.2 Zakat and income tax charge reported in the consolidated statement of income includes an impact of deferred tax expense amounting to SAR 12 thousand (2021: deferred tax income of SAR 20 thousand).

(Saudi Arabian Riyals in thousands)

14. ACCRUED ZAKAT AND INCOME TAX (CONTINUED)

14.3 Status of assessments

Zakat and income tax assessments for the period ended 31 December 2008 and the years ended 31 December 2009, 2010 and 2011, for which the Company filed separate zakat and income tax returns, have been finalised by the ZATCA with an additional demand of SAR 29.9 million. The Company filed appeals related to these assessments, which were decided in favour of ZATCA. The Company maintains an adequate provision for additional demand on these assessments.

In accordance with Ministerial Resolution 1005, consolidated zakat and income tax return has been filed for Bank AlJazira Group including the Company for the year ended 31 December 2021. The Company's zakat and income liabilities for year ended 31 December 2021 have been paid to the Bank.

15. EMPLOYEES' END OF SERVICE BENEFITS

The movement in provision for employees' end of service benefits are as follows:

	2022	*2021*
Balance at beginning of the year	**37,183**	43,894
Current service cost	**3,657**	3,611
Past service cost	**--**	2,422
Special commission expense	**912**	774
Amount recognised in consolidated statement of income	**4,569**	6,807
Re-measurement gain recognised in other comprehensive income, net	**(1,310)**	(708)
Benefits paid during the year	**(1,409)**	(12,810)
Balance at the end of the year	**39,033**	37,183

15.1 Re-measurement (gain) / loss recognised in other comprehensive income is as follows:

	2022	*2021*
Effect of change in financial assumptions	**(2,570)**	(670)
Effect of experience adjustments	**1,260**	(38)
Re-measurement gain recognised in other comprehensive income, net	**(1,310)**	(708)

15.2 Principal actuarial assumptions

The following were the principal actuarial assumptions:

	2022	*2021*
Key actuarial assumptions		
Discount rate used	**4.22%**	2.50%
Expected annual salary increment	**3.00%**	2.25%
Expected employee turnover	**8.5%**	8.5%
Duration	**6.81 years**	7.39 years
Mortality rate	**0.11%**	0.11%
Demographic assumptions		
Retirement age	**60 years**	60 years

(Saudi Arabian Riyals in thousands)

15. EMPLOYEES' END OF SERVICE BENEFITS (CONTINUED)

15.3 Sensitivity analysis

A quantitative sensitivity analysis for significant assumptions on the employees' end of service benefits is shown below:

	2022		*2021*	
	Increase	***Decrease***	*Increase*	*Decrease*
Discount rate *(1% movement)*	**(2,500)**	**2,818**	(2,573)	2,924
Future salary growth *(1% movement)*	**3,027**	**(2,729)**	3,097	(2,772)
Withdrawal rate *(10% movement)*	**(221)**	**254**	(337)	381

15.4 Maturity profile

Expected maturity analysis of undiscounted employees' end of service benefits is as follows:

	2022	*2021*
Year 1	**5,374**	4,788
Year 2	**3,516**	3,118
Year 3	**3,343**	2,892
Year 4	**3,151**	2,740
Year 5	**2,950**	2,554
Year 6 to 10	**15,432**	12,647
Year 11 and above	**20,028**	16,604

16. SHARE CAPITAL

The share capital is divided into 50 million shares (31 December 2021: 50 million shares) of SAR 10 each. The Company's share capital is wholly owned by Bank AlJazira as at 31 December 2022 and 31 December 2021.

17. COMMITMENTS

The un-utilised margin finance loan limits as at 31 December 2022 amounting to SAR 361.2 million (31 December 2021: SAR 88.4 million).

18. BROKERAGE FEES, NET

The brokerage fees is reported net of directly attributable expenses amounting to SAR 123.9 million (2021: SAR 228.2 million).

19. ASSET AND WEALTH MANAGEMENT FEES, NET

The asset and wealth management fees is reported net of directly attributable expenses amounting to SAR 15.8 million (2021: SAR 17.3 million).

(Saudi Arabian Riyals in thousands)

20. GAIN ON FAIR VALUE THROUGH INCOME STATEMENT FINANCIAL INSTRUMENTS, NET

	2022	*2021*
Unrealised gain on investments at FVTIS, net	**18,924**	2,872
Realised gain on investments at FVTIS, net	**7,708**	2,760
	26,632	5,632

21. RENT AND PREMISES RELATED EXPENSES

The Bank has various lease agreements for Bank AlJazira Group offices including the Company's Head Office and investment centers. As mentioned in note 3(h), lease payments on short-term leases and leases of low-value assets are recorded as rent expense on a straight-line basis over the lease term.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	Notes	***2022***	*2021*
Technology expenses		**15,525**	16,977
Professional fees		**9,551**	7,093
Subscriptions		**6,676**	4,433
Securities service charges		**6,496**	6,353
Directors' remuneration	*29*	**3,446**	2,278
Support service charges	*29*	**2,751**	3,390
Utilities		**1,393**	611
Repairs and maintenance		**1,325**	1,357
Travelling		**1,139**	744
Business promotion		**974**	900
Training and conferences		**360**	290
Others		**8,720**	7,673
		58,356	52,099

23. EARNINGS PER SHARE

Basic and diluted earnings per share for the year ended 31 December 2022 and 31 December 2021 is calculated by dividing net income for the year by the weighted average outstanding number of shares for the year, totaling 50 million shares (2021: 50 million shares).

24. ASSETS HELD UNDER FIDUCIARY CAPACITY

Client funds and assets are managed in a fiduciary capacity without risk or recourse to the Company. These assets are considered off balance sheet items and do not constitute part of the Company's assets. The following table summarises the fiduciary assets, as at 31 December:

	2022	*2021*
Assets under management	**10.8 billion**	10.2 billion
Funds under administration / brokerage	**83.2 billion**	81.4 billion

25. FINANCIAL RISK MANAGEMENT

The Group's objective in managing risk is the creation and protection of shareholder value. Risk management is an ongoing process which requires continuous identification, analysis, mitigation, monitoring of risks and controls.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors have established a Risk committee to provide oversight on Group’s risk management matters. Risk management policies are developed to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group has dedicated Risk and Compliance functions. Day-to-day risk management activities are managed within each respective business unit. The Risk committee meets periodically and is updated on all risk management matters.

The Group has exposure to the following risks arising from financial instruments:

- Market risk
- Credit risk
- Liquidity risk
- Operational risk

25.1 Market risk

a) *Foreign exchange risk*

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Group’s transactions are principally in SAR and US Dollar (“USD”). As the SAR is pegged to the USD, the Group is not exposed to any significant foreign exchange risk on USD transactions. In addition, as at 31 December 2022 the Group has exposures in Australian Dollar amounting to SAR 84.3 million (31 December 2021: nil) and British pound amounting to SAR 31 million (31 December 2021: nil).

The Group entered into a forward exchange agreement to set off the adverse movement in the Australian Dollar exposure due to changes in the foreign exchange rate.

b) *Commission rate risk*

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of financial instruments.

The Group’s commission bearing financial instruments are margin finance receivables and short-term borrowings. The commission is fixed for the period for which these commission bearing financial instruments are issued or obtained. Therefore, no significant commission rate risk exists for existing financial instruments.

c) *Price risk*

Price risk is the risk that the value of the Group’s financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements.

The Group’s price risk exposure relates to its investments in quoted equities and investment funds units whose value will fluctuate as a result of changes in market prices.

(Saudi Arabian Riyals in thousands)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Market risk (continued)

c) Price risk (continued)

The Executive Committee ensures that the proprietary investments are diverse and balanced, and seeks investment opportunities consistent with the investment strategy and risk appetite of the Group.

The Group manages this risk through diversification of its investment portfolio and periodic monitoring of changes in equity prices and net asset value of the investment funds.

The Group's investment in investment funds is disclosed below:

	2022		*2021*	
	%	***Amount***	*%*	*Amount*
Public funds	**5.6**	**51,603**	92.1	241,838
Private funds	**94.4**	**871,688**	7.9	20,605
	100	**923,291**	100	262,443

The Group's investment in quoted equities by industry is disclosed below:

	2022		*2021*	
Industry Sector	***%***	***Amount***	*%*	*Amount*
Designated at FVTIS				
Materials	**100**	**5,093**	--	--
Consumer staples	--	--	4.8	208
Utilities	--	--	6.5	284
Financial services	--	--	20.2	880
Health care	--	--	25.9	1,126
Information technology	--	--	42.6	1,851
	100	**5,093**	100	4,349
Designated at FVOCI				
Financial services	**100**	**30,061**	100	40,981

All the above equities are listed on the Saudi Stock Exchange (Tadawul).

The effect on the consolidated statement of income (as a result of the change in the fair value of investments as at 31 December) due to a reasonably possible change in equity prices and / or the investment funds' net assets value, with all other variables held constant, is as follows:

		Effect on consolidated statement of income	
	Potential reasonable change %	***2022***	*2021*
Public funds	+/- 5%	**2,580**	12,092
Private funds	+/- 5%	**43,584**	1,030
Quoted equities	+/- 5%	**255**	217

(Saudi Arabian Riyals in thousands)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Market risk (continued)

c) Price risk (continued)

The potential reasonable change percentage used to determine the above sensitivity is consistently applied to last year's numbers for better comparison.

The effect on the consolidated statement of other comprehensive income (as a result of the change in the fair value of investments as at 31 December) due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

		Effect on consolidated statement of other comprehensive income	
	Potential reasonable change %	***2022***	*2021*
Quoted equity *(AlJazira Takaful Taawuni Company)*	+/- 5%	**1,503**	2,049

25.2 Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and may cause the other party to incur a financial loss. The Group is exposed to credit risk mainly arising from cash and cash equivalents, margin finance receivables and other current assets.

The Group's risk management policies and processes are designed to identify and analyse risk, to set appropriate limits and controls, and to monitor the risks and adherence to limits by means of timely and reliable management information data.

The Group's maximum exposure to credit risk without taking effect of collateral amounts is as follows:

	2022	*2021*
Cash at bank and in investment account	**36,224**	8,041
Margin finance receivables	**1,688,244**	1,945,957
Due from related party	**--**	4,004
Other current assets	**126,828**	254,198
	1,851,296	2,212,200

Cash at bank and other current assets
Bank balances are maintained with banks having sound credit ratings. Other current assets represent asset management fees receivable mainly from investment funds and portfolios managed by the Company, deposit with Muqassa, advance against investment, and receivables from corporate clients, which are considered as low credit risk by the Group.

Margin finance receivables
Lending for margin finance is done with initial coverage of at least 200%. This coverage is actively monitored and margin calls and force liquidations are performed at specific predefined thresholds to ensure that the margin lending is sufficiently collateralised at all times. Customer portfolios are liquidated to cover the loan amounts if the collateral coverage ratio drops below the liquidation level. Even though there might be a small probability of default, the ECL results in zero impairment provision as the pledged collateral (in the form of cash or liquid securities) adequately covers the exposure. The over-collateralised nature of the exposure, coupled with the Group's monitoring process, results in a loss given default (LGD) of zero.

(Saudi Arabian Riyals in thousands)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

Given the nature and extent of the collateral pledged against the Group's margin finance receivables, the management considers the credit risk of the exposures to be minimal.

The fair value of the collateral held against margin finance receivables amounted to SAR 4.8 billion as at 31 December 2022 (31 December 2021: SAR 6.0 billion).

25.3 Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The Group maintains a Murabaha facility from Parent Company, Bank AlJazira to satisfy its liquidity requirements.

The Group's liquidity management approach ensures that it always has sufficient liquidity (or access to sufficient liquidity) to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable costs or risking damage to the Group's reputation.

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

31 December 2022	***Within 3 months***	***3 to 12 months***	***More than 1 year***	***No fixed maturity***	***Total***
Short-term borrowings	1,413,382	--	--	--	1,413,382
Due to related parties	69,911	--	--	--	69,911
Lease liabilities	2,333	3,098	11,491	-	16,922
Other current liabilities	53,145	5,463	--	--	58,608
Total	**1,538,771**	**8,561**	**11,491**	--	**1,558,823**

31 December 2021	*Within 3 months*	*3 to 12 months*	*More than 1 year*	*No fixed maturity*	*Total*
Short-term borrowings	562,837	774,470	--	--	1,337,307
Due to related parties	7,400	--	--	--	7,400
Lease liabilities	102	3,086	18,344	--	21,532
Other current liabilities	28,864	3,937	--	--	32,801
Total	599,203	781,493	18,344	-	1,399,040

25.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, people, technology and infrastructure supporting the Group's activities either internally or externally at the Group's service provider level and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.4 Operational risk (continued)

Operational risk is a distinct risk category which the Group manages within acceptable levels through sound operational risk management practices that are part of the day-to-day responsibilities of management at all levels. The objective of managing operational risk is to ensure that adequate controls are in place to protect the assets and reputation of the Group and minimising the potential for financial loss.

The Group's risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with operations. Qualitative and quantitative methodologies and tools are used to identify and assess operational risks and to provide management with information for determining appropriate mitigating factors. These tools include a loss database of operational risks events categorised according to CMA Prudential Rules, business lines, operational risk event types, implementation of a risk and control self-assessment process to analyse business activities and identify operational risks related to those activities. The management of operational risk has a key objective of minimising the impact of losses could be suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss. High impact risks and issues of critical importance are reported to the Risk Committee along with root cause analysis and the resolutions.

26. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

Unconsolidated structured entities are all structured entities that are not controlled by the Group. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and / or for specific investment opportunities. An interest in a structured entity is contractual or non-contractual involvement which creates variability of the returns of the Group arising from the performance of the structured entity.

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

			Total assets	
Type of structured entity	**Nature and purpose**	**Interest held by the Group**	***2022***	*2021*
Public funds	To generate: ▪ returns from trading in the units and / or periodic distributions from the funds. ▪ fee from managing assets on behalf of third party investors. These funds are financed through the issue of units to investors.	▪ Investments in units issued by the funds. ▪ Management and performance fee	**194,561**	4,512,964

(Saudi Arabian Riyals in thousands)

26. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

Type of structured entity	Nature and purpose	Interest held by the Group	Total assets 2022	Total assets 2021
Private funds	To generate: ▪ returns from capital appreciation and / or periodic distributions from the funds. ▪ fee from advisory services / managing assets on behalf of third party investors. These funds are financed through the issue of units / shares to investors.	▪ Investments in units / shares issued by the funds. ▪ Advisory and management fee	**1,639,941**	486,585

The table below sets out an analysis of the carrying amounts of interest held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held. These interests are reported as investments at fair value through statement of income into these consolidated financial statements.

	2022	*2021*
Public funds	**51,603**	241,838
Private funds	**854,070**	13,986
	905,673	255,824

The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. The Group earned a fee amounting to SAR 49.8 million (2021: SAR 12.22 million) from the structured entities it has sponsored, but in which the Group does not have an interest.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the close of trading on the financial reporting date. Instruments for which no sales were reported on the valuation day are valued at the most recent bid price. Investment fund exposures are valued at the net asset value (NAV) per unit as determined by the relevant fund manager or fund administrator. Forward exchange agreement is valued using discounted notional techniques that use observable market data inputs for foreign exchange and yield curves.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

(Saudi Arabian Riyals in thousands)

27. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the carrying amount and fair values of financial instruments, including their levels in the fair value hierarchy. It does not include the fair value hierarchy information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2022	***Carrying Value***	***Level 1***	***Level 2***	***Level 3***	***Total***
Investments	**958,445**	**35,154**	**51,603**	**871,688**	**958,445**
31 December 2021					
Investments	307,773	45,330	262,443	--	307,773

Carrying value of other financial assets and financial liabilities are approximate to their fair value and are classified as level 3.

Investments classified in level 2 and level 3

The Group uses NAV reports produced by the fund manager or fund administrator for the determination of fair values of investment funds. The fund manager or fund administrator deploys various techniques for the valuation of underlying financial instruments depending upon their nature.

The following table shows the movement of Level 3 fair values for the year.

	2022
At beginning of the year	**--**
Transfer from level 2	**6,619**
Purchases	**859,531**
Redemptions	**(23,074)**
Change in fair value, net	**28,612**
At the end of the year	**871,688**

(Saudi Arabian Riyals in thousands)

28. FINANCIAL INSTRUMENTS BY CATEGORY

The classification of financial assets by category are included in the below table.

31 December 2022	**Amortised cost**	**FVTIS**	**FVOCI**
Cash and cash equivalents	36,254	--	--
Margin finance receivables	1,688,244	--	--
Investments	--	928,384	30,061
Other current assets	126,828	--	--
Total	**1,851,326**	**928,384**	**30,061**

31 December 2021	Amortised cost	FVTIS	FVOCI
Cash and cash equivalents	8,071	--	--
Margin finance receivables	1,945,957	--	--
Due from related party	4,004	--	--
Investments	--	266,792	40,981
Other current assets	254,198	--	--
Total	2,212,230	266,792	40,981

As at the consolidated statement of financial position date, all financial liabilities, except a negative fair value of forward exchange agreement amounting to SAR 0.94 million (31 December 2021: nil), were measured at amortised cost.

29. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Company comprise of the Board of Directors, key management personnel of the Company, investment funds under management, Bank AlJazira and its subsidiaries and affiliated companies.

29.1 Related party transactions

The significant transactions with related parties during the year were as follows:

Related party	***Notes***	***2022***	*2021*
Bank AlJazira			
Special commission income	*(a)*	**275**	54
Investment banking services fee		**--**	3,125
Custody fees		**6,329**	5,266
Advisory and management fees		**2,693**	--
Gain on forward exchange agreement, net		**2,244**	--
Special commission expense		**30,957**	10,126
Support service charges	*(b)*	**2,751**	3,390
Rent and premises related expenses	*(c)*	**1,274**	1,924
Lease related expenses		**4,977**	5,047
Bank charges		**676**	929
Investment funds			
Asset and wealth management fees		**51,082**	29,691
Board of Directors			
Directors' remuneration		**3,446**	2,278
Key management personnel			
Salaries and compensation		**22,387**	23,142
End of service benefit		**404**	520

(Saudi Arabian Riyals in thousands)

29. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

29.1 Related party transactions (continued)

a) Special commission income is earned on deposits placed with the Bank.

b) Support service charges represent financial, administrative, logistics and IT related services as per the service agreement with the Bank.

c) Rent and premises related expenses are paid to the Bank in relation to the offices and investment centres of the Company as disclosed in note 21 of these consolidated financial statements.

29.2 Balances with related parties

Related party	***2022***	*2021*
Bank AlJazira		
Cash and cash equivalents	**36,063**	8,041
Due from related party	**--**	4,004
Due to related party	**67,239**	5,373
Short-term borrowings (note 12)	**1,409,149**	1,331,544
Negative fair value of forward exchange agreement	**937**	--
AlJazira Takaful		
Investment	**30,061**	40,981
Due to related party	**2,672**	2,027
Investment funds		
Investments	**78,260**	255,824
Asset and wealth management fees receivable	**41,979**	54,146
Other receivables	**1,324**	--
Board of directors		
Directors' remuneration	**2,961**	2,058
Key management personnel		
Employees related liabilities	**17,343**	9,447

30. CAPITAL ADEQUACY

The CMA has issued Prudential Rules (the "Rules") dated 17 Safar 1434H (corresponding to 30 December 2012). According to the Rules, the CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology. In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

(Saudi Arabian Riyals in thousands)

30. CAPITAL ADEQUACY (CONTINUED)

	2022	*2021*
Capital Base:		
Tier 1 Capital	**1,175,388**	1,046,299
Tier 2 Capital	**12,561**	23,481
Total Capital Base	**1,187,949**	1,069,780
Minimum Capital Requirement:		
Market Risk	**72,137**	38,351
Credit Risk	**629,643**	540,071
Operational Risk	**55,715**	47,429
Total Minimum Capital Required	**757,495**	625,851
Capital Adequacy Ratio:		
Total Capital Ratio (time)	**1.57**	1.71
Surplus in Capital	**430,454**	443,929

a) Capital Base of the Company comprise of:
- Tier-1 capital consists of paid-up share capital, retained earnings, reserves excluding revaluation reserves.
- Tier-2 capital consists of revaluation reserves.

b) The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in the Rules.

The Company's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard the Company's ability to continue as a going concern, and to maintain a strong capital base.

Subsequent to the year-end, CMA issued new Prudential Rules that are effective from 1 April 2023. The new Prudential Rules are expected to have a positive impact on the total capital ratio of the Company.

31. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform to the current year presentation.

32. EVENTS AFTER THE END OF REPORTING PERIOD

Other than as disclosed in note 30, no significant event has occurred subsequent to the reporting date and before the issuance of these consolidated financial statements which requires adjustment to, or disclosure, in these consolidated financial statements.

33. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements and its accompanying notes were approved by the Board of Directors on 30 Sha'ban 1444H (corresponding to 22 March 2023).