Saudi Fransi Capital

Annual Report 2022

السعودي الفرنسي كابيتال
Saudi Fransi Capital

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Leading The Field

During a year characterized by uncertainty and volatility in the financial markets. Saudi Fransi Capital was able to continue its focus on providing pioneering investment products and services to its clients, as the year 2022 witnessed important achievements and the company strengthened its leading position in Investment banking, Asset management and Securities brokerage. Saudi Fransi Capital consistently demonstrated expertise in underwriting, executing complex transactions, and developing investment and asset management products.

Asset management continued to provide new investment products during the year 2022 by launching the Saudi Fransi Capital Fixed Income Fund, which aims to generate income and capital appreciation for investors. A highlight of the year was the extremely successful role of Investment Banking, as they successfully completed eleven (11) landmark transactions in 2022. As for the Securities brokerage, we focused on the growth of our custody business with our Assets under Custody standing at SAR 14.9 billion, and our stock research coverage has grown to include many new sectors.

In recognition of our efforts and achievements, we received 12 awards during the year 2022 from prestigious international companies.

Future plans for 2023

Saudi Fransi Capital will continue to sustain and grow market leadership and to innovate and launch new investment products and services that help expand our relationships with existing customers and attract new customers.

Investment Banking

Our Investment Banking business registered a strong 2022 by continuing to provide industry-leading advisory services to its clients, particularly in Equity and Debt Capital Markets and Mergers and Acquisitions. Reflecting this focus, it continued to hold the top Ranking in terms of number of deals in the Equity Capital Markets league table in Saudi Arabia, with over 23 ECM deals valued at SAR 28.8 billion since 2012.

The Investment Banking business successfully completed eleven (11) landmark transactions in 2022. Some of the notable transactions include Advising Seera Group and its shareholders on the demerger of Lumi Rental Company – a subsidiary of Seera – marking the first demerger in the Saudi market, and paving the way for Saudi listed conglomerates to unlock value through similar initiatives. In addition to completing two main market IPOs in 2022, SFC also managed to get a CMA approval in December for the initial public offering of Jamjoom Pharma, making us one of the most active investment banks during the year, and paving the way for a strong start to 2023.

SFC continued leadership in Equity markets and advised on the following IPO and Rights issues:

- Perfect Presentation (2P), A leading company in the growing ICT market SFC acted as sole financial advisor, bookrunner and Underwriter on SAR 832 million IPO where Institutional offering was covered 60.1 times while retail offering was covered 3.75x.
- AlSaif Gallery IPO, SFC acted as sole financial advisor, bookrunner and underwriter for the SAR 1.2 billion which marked the addition of a fan favorite brand to the Saudi market and the leading player in the home appliances and kitchenware market in KSA.
- Jahez IPO, SFC acted as bookrunner and receiving agent of Jahez IPO – a transformational IPO in the Fintech space on the Nomu market.
- Completed Petro Rabigh’s rights issue of SAR 7.9 Million SFC acted as a joint underwriter.

This year witnessed a significant expansion of M&A advisory services at Saudi Fransi Capital, which included:

- SFC acted as buy side advisor for Arabian Internet and communications services Company "Solutions" by STC, the leading enabler of digital transformation in Saudi Arabia, on the acquisition of Contact Center Company ("CCC"), marking a strategic milestone in the expansion of solutions in the business outsourcing sector that will help provide end to end services to customers in the region.

◊ SFC acted as the sell-side advisor to SABB Takaful in the successful completion of a merger between SABB Takaful and Walaa Cooperative Insurance Co, this landmark deal comes at a time when Saudi Arabia's burgeoning insurance industry is trending toward consolidation. SFC was proud to play a pivotal role in supporting these initiatives based on extensive experience in the insurance sector.

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SFC also acted as a JLM and bookrunner on the following:

- PIF's Inaugural USD3.0 billion green bond 3 tranches offering including the first-ever 100-year green bond for an SWF.
- Arranger on Banque Saudi Fransi- U.S$ 4.0 billion Medium Term Note Program- as well as JLM and Bookrunner on the Inaugural USD 700 million 5 Year Reg.s Bond issuance in the international market. The offering was highly oversubscribed and attracted a balanced book of international, regional and local demand.
- Arabian Drilling Company, SAR2.0 billion Sukuk issuance. SFC was able to timely execute the transaction at the back of extensive marketing strategy which results in a coverage of 2.8x.

Reflecting the caliber of this work, SFC has won multiple awards in 2022 including:

- MEA Finance named SFC the "Best Investment Bank" in Saudi Arabia, for the second year in a row.
- International Business Magazine awarded SFC as "Best Investment Banking Company".
- GFC's Capital markets & ESG Finance Award for "M&A House of The Year".
- GFC's Capital Markets & ESG Finance Award for Bank/Financial Institutions Bond Deal of the Year.
- Capital markets Saudi Arabia Award for Local Currency Bond/Sukuk Deal of The Year for SRC sukuk in Saudi Arabia 2022.
- Capital markets Saudi Arabia Award for Public Sector Deal of The Year for SRC sukuk in Saudi Arabia 2022.

Asset Management

2022 proved to be an extremely challenging year for capital markets globally as rapidly rising inflation sparked an extremely aggressive monetary policy response from the Federal Reserve, which increased the Federal Funds Rate 7 times in 2022 from a base of 0.25% to 4.50%. The situation was further exacerbated by the geopolitical situation, namely the invasion of Ukraine by Russia. Overall, this led to negative performance across most major asset classes and a heightening of risk aversion amongst investors.

In response to all these challenges, our asset management business' main focus was being proactive with our investors to keep advising them to the best of our abilities in keeping them informed whilst striving to assist them in capitalizing on opportunities emanating from such an environment.

One such opportunity was the launch of SFC Fixed Income Fund – Shariah Complaint in April 2022 in order to capitalize both of rising rates and a fast growing and dynamically evolving domestic fixed income market and recognition to the initiatives and support of the financial sector development initiatives and all the related entities. The fund aims to provide diversified fixed income exposure and regular income to investors whilst also providing regular liquidity.

As highlighted above, whilst there were significant challenges globally for markets and economies, the Kingdom of Saudi Arabia was perhaps the brightest light amongst all major global economies. Vision 2030 and all its realization programs had their most impressive year so far with the promise for even more acceleration and excellence in years to come. In the midst of this, our focus has continued to be on exploring several initiatives within the real estate and infrastructure space especially projects that are closely linked to the Vision realization programs and to further promote public private partnerships.

After the highly successful launch of our data center initiative in 2021, we followed this up with the formal launch of a joint initiative with the Tourism Development Fund and Red Sea Markets Company to launch an investment fund managed by Saudi Fransi Capital, which will develop mixed use project with a value of SAR 950 million. This project is line with the vision of developing the Aseer region and promoting tourism.

As always, we continued to focus and grow the strength of our global advisory platform. The focus in 2022 was on adding to alternative investments which display a low correlation to public markets given the prevailing environment. As a result, we successfully added 3 new managers to our platform in the space covering global private credit and hedge funds. In addition to this, we selectively and successfully placed a few select US real estate deals during the year whilst also profitably divesting from a few deals as well.

In recognition of our efforts, we were proud to be recognized by the International Business Magazine as the most innovative asset management company for the year 2022.

Securities Brokerage

We continued to focus on our niche services offering such as bulk liquidation. We focused on the growth of our custody business with our Assets under Custody standing at SAR 14.9 billion. The year was very challenging for fixed income investments and accordingly we continued to provide our clients with actionable and investable fixed income ideas.

Our research coverage grew in several areas including consumer discretionary and Transport/Retail sectors with our current coverage standing at 51 companies. We also published multiple pre-IPO research pieces that supports investors in the Saudi market. The expanded research of pre-IPO listing provides more color for new listings to the Saudi capital markets and facilitates easier participation of institutional investors in the Saudi equity market.

Another significant accomplishment included the continued expansion of our international client base, which adds liquidity to the capital markets in Saudi Arabia. Our international client base had a larger contribution to our business during than the year compared to prior years. In addition, we are working on the introduction of Securities Borrowing and Lending which could potentially facilitate short selling in the Saudi equity market.

At SFC, we place the utmost priority on the client's journey and experience, which increasingly takes place in the digital realm. During the year, Saudi Fransi Capital have launched its new website application which commenced our journey in undergoing a comprehensive digital transformation. We are in the process of overhauling the investors' initial digital touchpoints, including the mobile application and the trading platforms. We also expanding the digital services available for clients with the objective to make each client's journey and experience as seamless as possible.

About Saudi Fransi Capital

A leader in investment banking, wealth and asset management, and securities brokerage in the Kingdom of Saudi Arabia, Saudi Fransi Capital provides a full range of investment solutions and advisory services to local and global financial institutions, corporations, government entities and individual investors.

Overview of Saudi Fransi Capital

Our history begins in 1985, when Banque Saudi Fransi offered securities brokerage in Saudi Stock Trading. In 1986, we started managing public investment funds. From that time on, we have expanded our investment activities and capitalized on evolving financial services trends. By 2008, the bank has established several companies to carry out brokerage, asset management and financial advisory activities. At the beginning of 2011, these companies merged to result in a new company called Saudi Fransi Capital, wholly owned by Banque Saudi Fransi.

Saudi Fransi Capital is the investment arm of Banque Saudi Fransi, where it was trademarked with a paid up capital of 500 million Saudi Riyals as a closed joint stock company. It is licensed by the Capital Market Authority to conduct the full range of investment activities including dealing, arranging, managing, advising, and custody of securities business.

Today, we stand as a leading, full-service Saudi-based financial services provider offering investment banking, asset management, debt and equity research, institutional sales and trading, and local and international securities brokerage. We are headquartered in Riyadh and have locations around the Kingdom of Saudi Arabia.

Asset Management

Asset management provides investment solutions to both individuals, companies and institutions. As it has a range of products that include equity, fixed income, money markets, and alternative investments such as real estate, hedge funds, structured products, and private equity. Our products cover all major asset classes. It includes all our public and private funds, and, our closed-ended private placements.

Investment Banking

Our investment banking services are actively involved in equity and debt capital markets and advisory services in the fields of mergers and acquisitions in the Kingdom of Saudi Arabia and the region. It also provides advisory and arranging sukuk and bonds, initial public offerings, rights issue, private placements, mergers and acquisitions, and capital and debt restructuring. We also provide advisory services for companies abroad that wish to cross list on the Saudi stock exchange.

Securities Brokerage

Our brokerage services are comprised of local, regional and global equity markets, swaps on equity, exchange-traded funds, fixed income and margin lending facilities both conventional and Sharia compliant. Clients can trade through the website, smart phones and tablets. The department is working on secure investments avenues so that clients can use a variety of methods to place trades on trading platforms.

Specialized Institutional Services

We attend to the needs of financial institutions by constantly developing new and innovative services in sales trading, custody and sukuk agency services. In addition, we facilitate access to the Saudi equity market for qualified foreign investors (QFI) and provide them numerous services. Our clients include banks, mutual funds, pension funds, hedge funds, insurance companies, brokers and other financial institutions around the world.

Research

The Research Department focuses on the Saudi stock market, as it presents investment ideas based on a fundamental analysis study for its clients. Research is an integral part of our equity sales effort. In addition, we issue strategy reports to assist sophisticated investors in navigating volatile markets. Reports are published in both Arabic and English.

Economic Highlights

2022 Global Overview

Following a marked recovery in 2021, the global economy faced significant headwinds and uncertainty in 2022, weighing considerably on the overall growth dynamics. Russia and Ukraine's military conflict at the start of the year and the sanctions that followed set off a surge in the prices of key commodities from oil to wheat, resulting in a sharp rise in the cost of living to levels not seen in the last four decades in many countries. Persistent supply chain bottlenecks and disruptions during first half of 2022, alongside a surge in commodity prices, quickly dismissed notions that the inflationary run was transitory, prompting central banks to respond with the most aggressive pace of monetary tightening since the 1980s, led by the US Fed. Growth dynamics continued to weaken throughout the year, with global growth estimated to slow to 3.2% in 2022 from 6.0% in 2021 (IMF World Economic Outlook, Oct'22).

While tighter monetary conditions and spillover effects of sanctions impacted growth across the board, a few major economies in the East, including China's economy, also suffered through extended mobility restrictions/lockdowns and a worsening property market crisis. The world's second-largest economy is estimated to see the most pronounced slowdown in growth to 3.2% in 2022 from 8.1% in 2021, the lowest growth in more than four decades, excluding the COVID-19 crisis in 2020. Meanwhile, in advanced economies, growth is estimated to have slowed from 5.2% in 2021 to 2.4% in 2022, led by the U.S., where growth is estimated at 1.6% in 2022 vs. 5.7% in the previous year, as inflation and tighter monetary policy impacted consumption and investment spending. In Europe, the growth slowdown is slightly less pronounced with a projected growth of 3.1% in 2022 vs. 5.2% in 2021, on the back of a more robust recovery in tourism-related services and industrial production during the first half of 2022 in some of its member countries.

Brent: According to The U.S. Energy Information Administration, Brent crude oil averaged USD98.94/bbl in 2022, up from USD71/bbl in 2021, implying an increase of 39%Year-over-yearThe oil market remained volatile in 2022 as Brent touched a high of USD128/bbl and a low of USD76/bbl. Oil prices rose sharply in first half of 2022 amidst rapid demand recovery from the pandemic, reduced crude and refined inventories, decreased upstream investments, some OPEC+ members running into production capacity constraints, and the Russia-Ukraine conflict. However, prices pulled back as Russian production confounded expectations for a post-invasion collapse, followed by the U.S. embarking upon an unprecedented market intervention using the largest-ever emergency release from the SPR and China also doubled down on Covid zero lockdowns. Moreover, global growth decelerated which impacted oil demand growth.

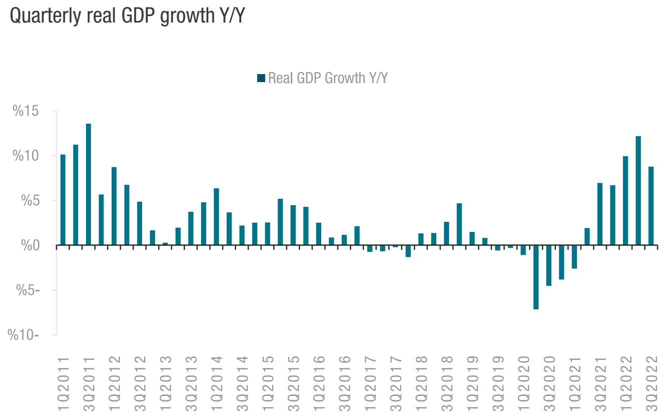
Oil production increased to an average of 99.8mnbpd compared to 97.5mnbpd in 2021, an increase of 2.4%Year-over-year. Production saw a significant rise in second half of 2022, leading to a buildup of inventory for the first time since the pandemic's beginning. As a result, OPEC+ cut production by 2mnbpd in its Oct '22 meeting, followed by policy continuation until Dec '22.
Going forward, the global oil market is forecasted to remain volatile, with OPEC having a pessimistic view of the global economy and its impact on oil demand. On the other hand, supply-side challenges remain due to underinvestment in oil production, changes in the attitude of U.S. shale producers, the continuation of OPEC cuts, and the result of tightening sanctions on Russian crude and refined products.

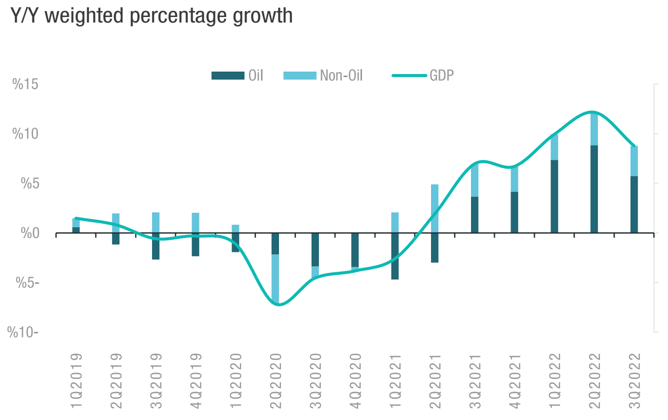
KSA Economy 2022 Performance

Despite the global headwinds of rising inflation, monetary tightening, geo-political conflicts, and supply chain disruptions. Saudi Arabia's economy proved resilient, owing largely to rising oil output and continued solid recovery momentum in the country's non-oil sector.

In the 2023 budget, the Ministry of Finance estimated Saudi Arabia's real GDP growth at 8.5% Year-over-year for 2022, making it the strongest pace of growth since 2011 and on track to be the fastest-growing economy among the G20 countries. This is backed by a strong recovery of non-oil activities, estimated to have grown by 5.9%Year-over-year, driven by improved demand, consumption, and pilgrims' inflow, as mobility restrictions were removed entirely during the year. Meanwhile, oil production increased to record levels, which according to the OPEC, averaged at 10.59mnbpd in 2022, up 16.1%Year-over-yearfrom last year.

Graph 1: 2Q22 Real GDP grows at the fastest pace in over a decade



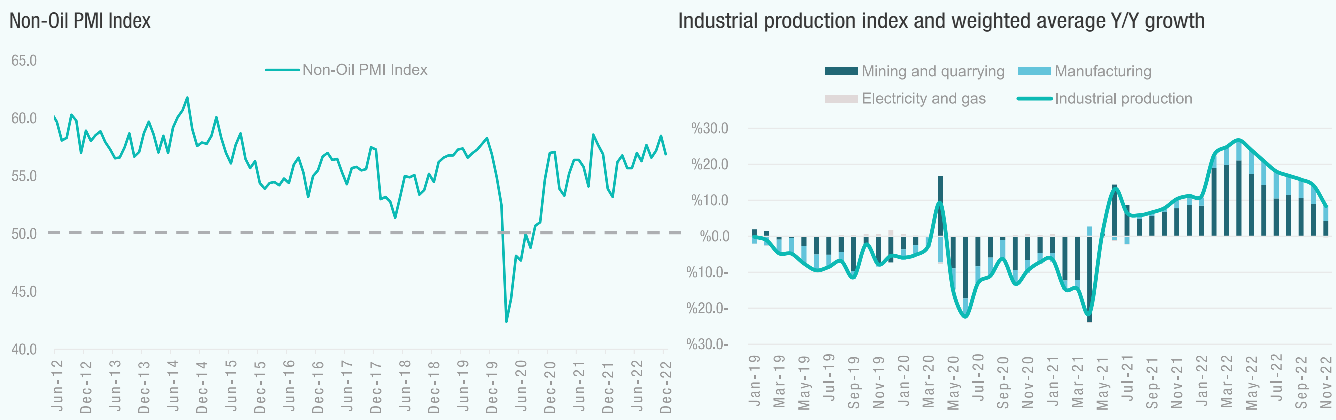


Source: GASAT

The data indicated a sustained growth in the non-oil sector throughout the year, mainly led by the private sector and supported by an improvement in the flow of pilgrims, a recovery in demand and an increase in consumption. Strong investment spending also continued despite higher interest rates with gross fixed capital formation increasing by 30% Year-over-year in the nine months of 2022. Furthermore, growth in the domestic segment turned into positive territory, recording six consecutive months of positive Year-over-year growth to reach 50.7million tons in 2022.

Meanwhile, driven by an uptick in new order growth on the back of robust domestic expansion and export business, Saudi Arabia's non-oil PMI index also pointed toward continued momentum of recovery in economic activity to levels approaching pre-pandemic period. Industrial production index recorded one of the fastest paces of expansion, exhibiting double-digit growth throughout 2022 due to higher oil output and sustained growth in the manufacturing sector.

Graph 2: Non-Oil activity growth momentum sustained throughout 2022



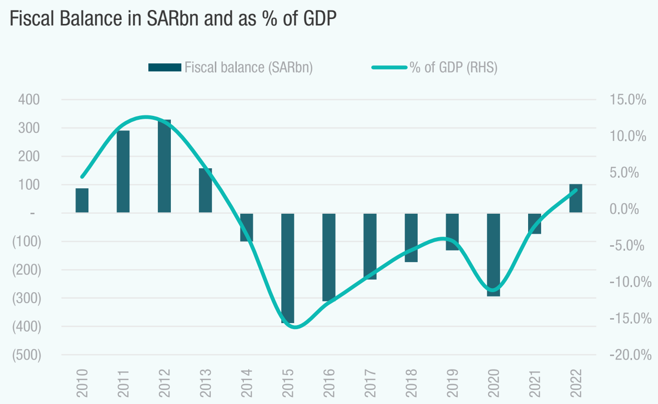
Source: IHS Markit/GASTAT

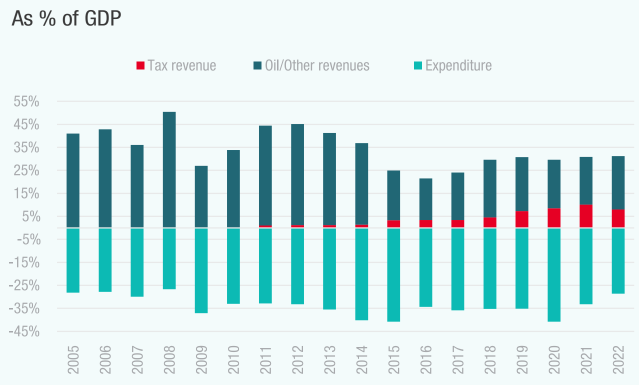
While headline inflation averaged 2.5% Year-over-year in 2022, moderating from 3.1% Year-over-year from last year, it largely reflected the high base, due to the impact of the VAT hike (from Jul' 20). Consumer price pressures generally accelerated, driven by an uptick in consumption, supply chain bottlenecks, and global inflation filtering through higher imported commodity prices. This was more pronounced on a monthly basis, where inflation was much higher, averaging 0.3% in 2022 vs. 0.1% in the previous year. Key contributors remained higher housing rents, food inflation, and restaurant & hotel prices. The acceleration of consumer price pressures in Saudi Arabia's domestic economy has been mostly restrained because to gasoline price limitations, which have remained constant since last year, despite the world economy's inflation in some countries going up to the highest level in four decades.

On the other hand, unemployment rates fell to almost pre-infection levels of 5.8% in the third quarter of 2022 as the Saudi labor market continued to return to normal as economic expansion improved, leading to a recovery in jobs and job creation - the labor force participation rate Improved to 61.5% in the third quarter of 2022 compared to 58.2% in the first quarter of 2020. Improved labor market conditions have become clearer for Saudi Nationals by virtue to the Saudization policies, of which unemployment surpassed the pre-COVID level at 9.9% in the third quarter of 2022. Meanwhile, the expat labor market benefited from strong underlying economic growth resulting in continued normalization in unemployment rates since the start of the year. However, it remained slightly higher than pre-covid levels of less than 1%.

The country is also on track to post its first annual fiscal surplus in over eight years. According to the budget document, the Ministry of Finance estimates a fiscal surplus of SAR102billion (USD27.2billion, 2.6% of GDP). This is a marked improvement from a deficit of SAR74billion (USD19.7billion, 2.4% of GDP) in the previous year. The improvement is fiscal balance was driven primarily by elevated oil prices and higher output to record levels in tandem with prudent expenditure. Total revenues were estimated to have increased by 28% Year-over-year to SAR1.234trillion (USD329billion, 31.2% of GDP) entirely on the back of a 50% Year-over-year increase in oil revenues since tax revenues were marginally lower by 1%. Compared to this, expenditures only increased by 9% Year-over-year to SAR1.132trillion (USD302billion, 28.6% of GDP), reflecting prudent policies with current expenditure only up 6.0% Year-over-year as subsidies and increased good & service purchases were rolled back. This allowed the government to expand development outlays by 29% Year-over-year, albeit from a low base. However, in terms of GDP, it was nearly at the same level as last year and the lowest in the last two decades, this reflects the shift in responsibility for growth-enhancing development from the government to nodal agencies like the Public Investment Fund.

Graph 3: Marked improved fiscal position with a first-ever surplus since 2013



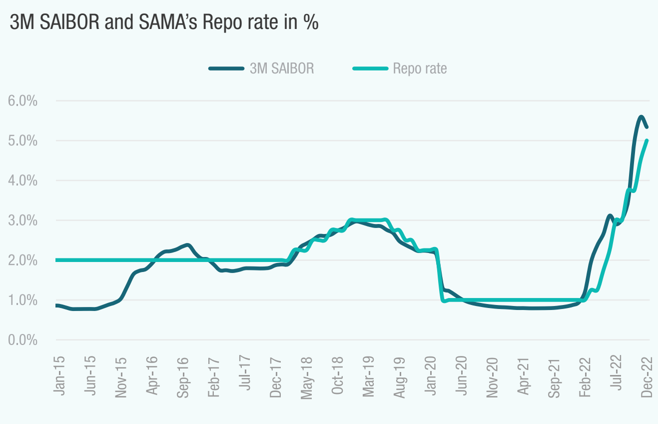


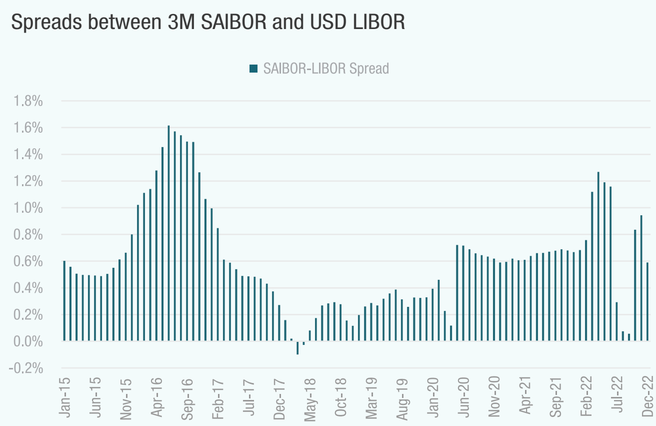
Source: Ministry of Finance

Despite the unexpected oil gains, the Kingdom's financial sector witnessed some short periods of tight liquidity as 400bps interest rate hikes were delivered by SAMA (Repo and Reverse Repo rates increased to 5.0% and 4.5%, respectively), and government decided to maintain its excess surplus in the current accounts till the year-end. Spreads between 3-month SAIBOR and USD LIBOR sharply rose close to 150bps in the second quarter of 2022 and again to 100bps at the start of the fourth quarter 2022 before normalizing back to their long-term average, once SAMA provided relief with a reported SAR50billion deposit and later stepped up the use of Open Market Operations to improve the liquidity of the banking system. This has coincided with a strong uptick in capex through the economic, which resulted in strong demand for borrowing, lending growth grew by 14.0%Year-over-year.

The banking sector remained well-capitalized throughout 2022. The Saudi banks' regulatory capital to risk-weighted assets and regulatory Tier-1 capital to risk-weighted assets stood at 19.4% and 17.8%, respectively, in third quarter of 2022, slightly lower than 19.9% and 18.2% at the end of 2021. Banks' asset quality also showed no signs of stress amidst a strong macro backdrop, with the ratio of non-performing loans (NPLs) to total loans slightly improving to 1.8% as of third quarter 2022 vs. 1.9% at the end of 2021.

Graph 4: 400bps rate hike deliver; tight liquidity periods evident from widening spreads





Source: SAMA

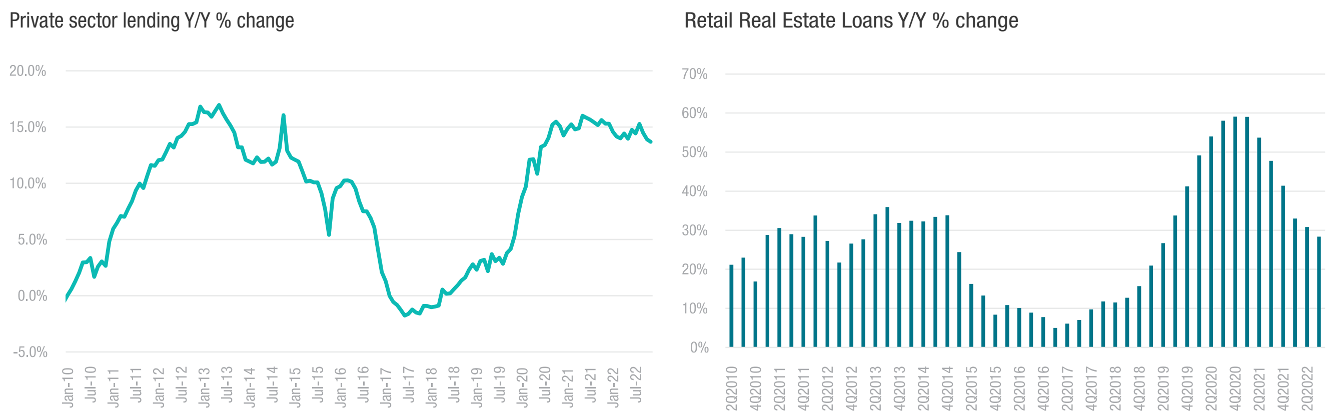
Private sector lending is largely sustained, reflecting improved investment spending in the country and strong macroeconomic activity. As per SAMA's latest statistics, lending to the private sector by Saudi Banks recorded a growth of 14.0% Year-over-year, with a total stock of loans granted at SAR2,264billion (USD604billion) in third quarter of 2022, up from SAR2,034billion

(USD542billion) in SPLY.

Sector-wise, this growth in private-sector lending had been driven by Real Estate activities and construction, which recorded the most pronounced growth in 2022, followed by the Mining and Quarry sector. Manufacturing sector loans recorded a small growth of only 1% Year-over-year, while Wholesale & trade-related loans grew by 2.2% Year-over-year. Consumer loans, however, maintained their strong trend and increased by 18.3% Year-over-year in third quarter of 2022,

Meanwhile, Retail Real Estate lending growth maintained its strong momentum of double-digit growth and grew by 28.3% Year-over-year in third quarter of 2022 to stand at SAR530billion (USD141billion), up from SAR413billion (USD110billion) in SPLY. However, the pace of growth moderated from last year as new originations slightly slowed amidst higher interest rates, with residential new mortgage loans for individuals provided by Saudi banks declining by 12.7% Year-over-year to SAR29.8billion (USD7.9billion) in 3Q22.

Graph 5: Credit growth sustained largely; real estate lending growth moderated



Source: SAMA

Tadawul All Share Index (TASI) ended 2022 on a lower note at 10,478 points, down 7.12% Year-over-year from a fourteen-year high level. Total market capitalization also declined by 1.31% Year-over-year to reach SAR9,878billion (USD2,634billion) at the end of 2022. Aggressive interest rate tightening, uncertainty around geo-political conflicts, and global economic slowdown continued to weigh upon TASI's performance in 2022. However, some recovery was witnessed in the fourth quarter of 2022 as the US Fed scaled back on its pace of monetary tightening. Sector-wise, Software & Services and Health Care Equipment & Services were the best-performing sectors delivering gains of 25.25% and 24.55%, respectively, in 2022. Meanwhile, Pharma, Biotech & Life Science was the worst performing sector which lost 44.65%, followed by Capital Goods with a negative 30.73% return during 2022.

2023 Vision

Global economic activity in 2023 is expected to be undermined by tight monetary policies, restrictive global financial conditions, and presently elevated inflation. In its Oct '22 World Economic Outlook (WEO), the IMF expects a further slowdown in global GDP growth from 3.2% in 2022 to 2.7% in 2023. With some signs of inflationary pressures abating, major central banks are expected to scale down significantly on the pace of monetary tightening. However, central banks are expected to maintain their tight policy stance throughout the year. Moreover, the IMF expect to keep the 2023 global growth forecast steady without any significant downgrade as seen in recent years, since commodity prices showed softening trend, strong labor market conditions in major advanced economies enabling a soft landing, and China, which previously contributed 35-40% to global growth, is expected to show improved growth dynamics with the removal of mobility restrictions at the start of the year.
However, uncertainty remains, and the risks to the global outlook are tilted toward the downside, which might push the global economy into a recession. Uncertain dynamics are evident with wide dispersion in global outlook forecasts, where the World Bank in its latest Global Economic Outlook, forecasts even sharper deceleration in global growth to 1.7% in 2023, placing it at the third

weakest pace of growth in nearly three decades after global recessions caused by the pandemic in 2020 and the global financial crisis in 2009. Renewed supply chain disruptions, geo-political tensions, and elevated core inflation could push underlying inflation pressures to become more persistent, leaving substantial uncertainty regarding the timing and magnitude of further monetary tightening. In this regard, further monetary policy tightening, and financial stress could result in a more pronounced slowdown in 2023.

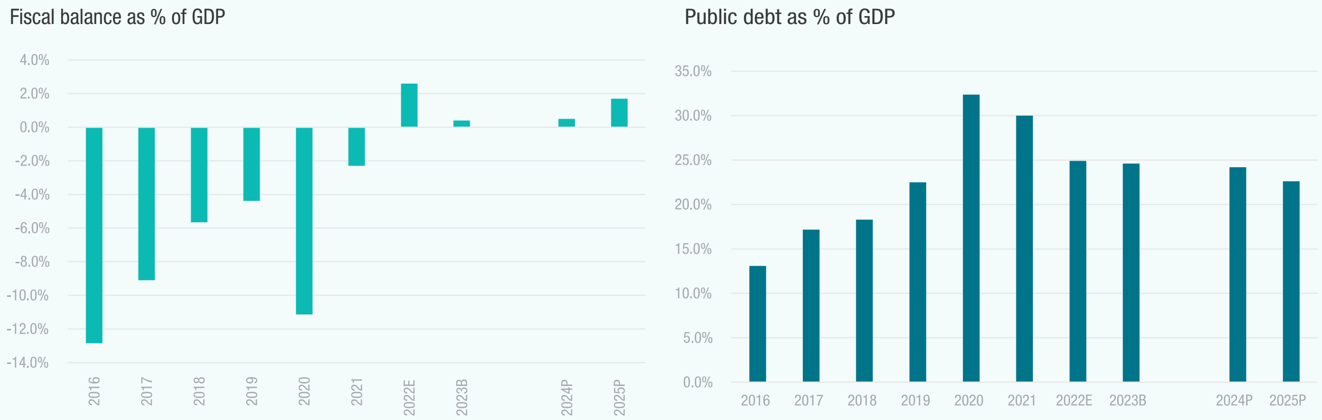
Similarly, the economic growth rate for Saudi Arabia is also expected to moderate from a decade-high level of 8.5% in 2022 to 3.1% in 2023, according to the estimates of the Ministry of Finance. While the pace of deceleration appears quite sharp, the growth in 2023 is banked on non-oil activities with little or no support from oil output on limited spare capacity. The non-oil sector is expected to deliver growth led by strong momentum, improved consumption, progress on Giga projects under the country's Vision 2030 plan, and a strong fiscal position enabling crucial support.

While the high likelihood of persistently tight monetary conditions throughout 2023 would weigh on investment, these should not significantly derail the growth momentum. Improved fiscal space (with the first surplus in over a decade) is likely to compensate for this with increased spending from the government as the budget surplus for 2022 is expected to be utilized in 2023, with state officials previously indicating surpluses will be directed to reserves first, before being allocated to the Public Investment Fund (PIF) or National Development Fund (NDF) for economic development. In addition, low public finance needs and elevated oil prices would support liquidity in the financial sector aided by recycling oil revenues and foreign investment inflows. In addition, a renewed CAPEX cycle driven by quasi-public/private collaboration and accelerated progress in achieving Vision 2030 goals would add further impetus to growth, led by the National Investment Strategy (NIS). According to the budget document, NIS embarks on aggressive targets of doubling annual investments to SAR2trillion (or 30% of GDP by 2030) in addition to improving domestic investments to SAR1.65trillion by 2030 –gross fixed capital formation contributed 26% to overall GDP in 2022 up from 24% in 2021.

Moreover, the budget for 2023 also lends maximum support to growth while striking a balance between growth and fiscal discipline amidst projected lower oil revenues. The government is targeting a narrower fiscal surplus of SAR16bn (0.4% of GDP) in 2023 vs. an estimated surplus of SAR102bn (2.6% of GDP) in 2022, as lower oil revenues have been matched with only a modest cut in expenditure and relatively elevated development spending.

Total revenues are expected to decline by 8% Year-over-year to SAR1,130billion, driven primarily by a 12% Year-over-year decline in oil and other revenues, while tax revenues are expected to grow by 2% Year-over-year. The latter is supported by continued growth in private sector activity for the next year resulting in higher taxes on income (estimated to grow 2% Year-over-year) and higher tax revenue on trade. This decline in revenue is fully matched with a cut in expenditures which have been penciled in to decline by only 2% Year-over-year to SAR1,114billion for 2023, mainly on 2% Year-over-year decline in current expenditure, while development spending is budgeted to increase by 4% Year-over-year. This would make the second consecutive year with an increase in development spending after nearly four years of consecutive declines, again indicative of public sector support to economic growth. Meanwhile, lower current expenditures are driven by 8%Year-over-year lower expenses on goods and services, as the government eased the one-time subsidies it extended in 2022 due to supply chain disruption. Similarly, direct subsidies and social grants are expected to decline in the current year. However, this is partially offset by higher public sector employee compensation reflecting annual increments and transition from Civil service laws to Labor laws.

Graph 6: Improved fiscal position provides room to extend crucial support to growth amidst global headwinds.



Source: Ministry of Finance

Inflationary pressures within the domestic economy will likely remain restrained, albeit any further negative shock. Ministry of Finance forecasts headline CPI inflation to remain stable at 2.1% Year-over-year in 2023 as price pressures, mainly imported commodity prices, show signs of moderation and the Saudi Central Bank tightens monetary policy in line with US Fed. Moreover, the domestic fuel price cap has helped contain the second-order impact of rising core inflation in Saudi Arabia's economy in contrast to global dynamics, where higher energy prices have fueled high inflation.

However, financial conditions are already tight, with SAMA delivering a 400bps rate hike in 2022, taking the benchmark rate to its highest levels since 2008 – largely in line with US Fed, which delivered a 425bps rate increase. In its last policy meeting statement, US Fed officials projected median FED funds at 5.1% in 2023, suggesting rates to increase by another 50bps in 2023, before any potential cut in 2024. Despite more rate hikes during the year, liquidity in the domestic economy should remain adequate on the back of low public finance needs and recycled oil revenues. In addition, the public sector's increased contribution to growth should partially offset the impact of a tighter monetary stance.

Risks remain on the downside, led by elevated inflation proving more persistent, which would warrant greater-than-expected tightening resulting in weakening of consumption and investment. In addition, heightened geo-political tensions, potential supply chain disruptions, commodity price shocks, and the global economy falling into a recession during the year could all weigh heavily on the domestic economy.

Saudi Arabia's 2023 budget and medium-term targets

	Actual	Actual	Actual	Estimate	Budget	% change	Projections	Projections
	2019	2020	2021	2022	2023	2022e vs 2023b	2024	2025
Revenue	**927**	**782**	**965**	**1,234**	**1,130**	**-8%**	**1,146**	**1,205**
Tax Revenues	**220**	**226**	**317**	**315**	**322**	**2%**		
Taxes on income, profits and capital gains	17	18	18	22	22	0%		
Taves on goods & services	155	163	251	245	254	4%		
Taxes on international trade & transactions	17	18	19	18	18	0%		
Other taxes (incl Zakat)	30	27	29	30	28	-7%		
Other revenues	**707**	**556**	**648**	**919**	**808**	**-12%**		
Oil Revenue	594	413	562	842	N.a			
Non-Oil Non-Tax Revenue	113	143	86	77	N.a			
Expenditure	**1,059**	**1,076**	**1,039**	**1,132**	**1,114**	**-2%**	**1,125**	**1,134**
Current Expenses	**887**	**921**	**922**	**981**	**957**	**-2%**		
Employee compensation	504	495	496	506	514	2%		
Use of goods and services	164	203	205	238	218	-8%		
Interest payments	21	24	27	32	39	22%		
Subsidies	22	28	30	27	22	-19%		
Social benefits	77	69	70	70	67	-4%		
Grants	1	4	3	2	2	0%		
Other expenses	87	97	91	105	96	-9%		
Net Acquisition of Non-Financial Assets (Capex)	**172**	**155**	**117**	**151**	**157**	**4%**		
Budget Surplus / (Deficit)	**(133)**	**(294)**	**(74)**	**102**	**16**	**-84%**	**21**	**71**
as % of GDP	**-4.4%**	**-11.1%**	**-2.3%**	**2.6%**	**0.4%**		**0.5%**	**1.7%**
Public Debt	**678**	**854**	**938**	**985**	**951**		**959**	**962**
as % of GDP	22.5%	32.4%	30.0%	24.9%	24.6%		24.2%	22.6%
Govt reserves with SAMA	470	359	347	394	399			
Real GDP growth	**0.3%**	**-4.1%**	**3.2%**	**8.5%**	**3.1%**		**5.7%**	**4.5%**
Inflation	**-2.1%**	**3.4%**	**3.1%**	**2.6%**	**2.1%**		**2.1%**	**2.1%**

Source: Ministry of Finance

Corporate Governance

In compliance with the Capital Markets Authority's circular related to implementing corporate governance standards and requirements, the company has developed a governance structure by creating a governing body of committees and by continuously developing and improving the governance policies and procedures.. The Board of Directors' memberships for the year 2022 in other companies is presented in the following table.

Member Name	Membership Classification	Membership Tenure	Membership in Other Companies
Eng. Talal AlMaiman	Chairman Non-Executive	Ongoing	Vice Chairman at Banque Saudi Fransi Board Member at Kingdom Holding Company Chairman at Kingdom Real Estate Development Company Board Member at Tasnee (National Industrialization Company) Vice Chairman at flynas Company Board Member at Trade Center Company Board Member at Real Estate Investment Company Board Member at Kingdom Schools Board Member at Kingdom Investment and Development Company Board Member at Jeddah Economic Company
Eng. Rayan Fayez	Vice Chairman Non-Executive	Resigned on Nov 1st ,2022	Board Member at Banque Saudi Fransi Board Member at Human Resources Development Fund Board Member at King Salman Park Board Member at Sports Boulevard Board Member at Al-Ula Development Company
Ms. Elizabeth Critchley	Board Member Non-Executive	Resigned on Sep 7th ,2022	Board Member at Ripplewood Advisors Limited Deputy Chairman of the Board at AS Citadele Banka Board Member at RA MENA Holdings Board Member at RA Special Acquisition Corporation Board Member at EFG Hermes Board Member at Windmill Hill Asset Management Board Member at South Hampstead Junior School Hardship Fund
Mr. Abdulaziz Binhassan	Board Member Independent Non-Executive	Resigned on Feb 28th ,2023	Chairman at Al Alamiya for Insurance Board Member at Al Faisaliah Group Board Member at Al Fares Group Board Member at Alamiya clinics Audit Committee Member ANB Bank
Ms. Huda Al-Lawati	Board Member Independent Non-Executive	Ongoing	Board Member at Young Arab Leaders Board Member at Hala Board Member at Magrabi Group Board Member at ADC Acquisition Corporate PJSC
Mr. Salam AlKhunaizi	Board Member Executive	Ongoing	—
Bader H. Alsalloom	Board Member Non-Executive	Ongoing – The no Objection letter has been received from CMA on 12/12/2022	Vice Chairman of Allianz SF
Mohammed Alsheikh	Board Member Non-Executive	Ongoing – The no Objection letter has been received from CMA on 12/12/2022	Chairman of Saudi Fransi for Finance and Leasing (SFL) Board Member Saudi Fransi Digital Venture, UAE Board Member, The Saudi Credit Bureau (SIMAH)

Board Meetings (Five Meetings)

Member Name	Board Meeting (1) 17/01/2022	Board Meeting (2) 25/04/2022	Board Meeting (3) 21/06/2022	Board Meeting (4) 28/09/2022	Board Meeting (5) 05/12/2022
Eng. Talal AlMaiman	✓	✗	✓	✓	✓
Eng. Rayan Fayez	✓	✓	✗	✗	–
Mr. Salam AlKhunaizi	✓	✓	✓	✓	✓
Ms. Huda Al-Lawati	✓	✓	✓	✓	✓
Ms. Elizabeth Critchley	✓	✗	✗	–	–
Mr. Abdulaziz Binhassan	✓	✓	✓	✓	✓

Board of Directors’ Committees

Executive Committee

The primary function of the Executive Committee is to approve the long-term business and strategic objectives and make sure that they are being achieved. The Committee recommends to the Board of Directors the annual budget and mid-term plan. In addition, it reviews and approves the changes related to the corporate governance structure and management structure including but not limited to entering into partnerships, joint ventures, disinvestments, expansions and acquisitions. It is also responsible for overseeing compliance of governance principles stipulated by the Capital Market Authority and other applicable regulatory authorities. In addition, it ensures the effectiveness of internal control environment and monitors compliance of all regulations. The Committee validates and approves major capital projects and investments, strategic and non-ordinary contracts, as well as excessive exposure in the normal course of business. Two meetings were held in the year 2022. The members of the Executive Committee are as follow:

Member Name	Membership Classification	Membership Tenure
Mr. Rayan Fayez	Chairman, Non-Executive	Resigned on Nov 1st ,2022
Mr. Zuhair Mardam	Member, Non-Executive	Ongoing Appointed on Dec 18th ,2022
Mr. Adel Mallawi	Member, Non-Executive	Resigned on Oct 30th ,2022
Mr. Salam AlKhunaizi	Member, Executive	Ongoing
Mr. Badr Al Salloom	Chairman, Non-Executive	Ongoing, Appointed as chairman on Dec 18th ,2022
Mr. Mohammed Al Alshikh	Member, Non-Executive	Ongoing – Appointed on Dec 18th ,2022
Eng. Talal Al Maiman	Member, Non-Executive	Ongoing – Appointed on Jan 17th ,2022

Executive Committee (EC) Meetings

Member Name	EC Meeting (1) 05/01/2022	EC Meeting (2) 25/01/2022	EC Meeting (3) 07/03/2022
Mr. Rayan Fayez	✓	✓	✓
Mr. Zuhair Mardam	✓	✓	✓
Mr. Adel Mallawi	✓	✓	✓
Mr. Salam AlKhunaizi	✓	✓	✓
Mr. Badr Al Salloom	–	✓	✓
Mr. Mohammed Al Alshikh	✓	✓	✓
Eng. Talal Al Maiman	–	✓	✓

Nomination and Remuneration Committee

The primary function of the Nomination and Remuneration Committee is to evaluate and recommend to the board an efficient remuneration policy and to monitor its implementation. The Committee is responsible for fairly and adequately rewarding the executives and employees to attract and retain those who add value and help the organization achieve its objectives. It reviews and recommends to the board of directors the policies and structure for remuneration of executives and employees and specific requests from the management for implementation of special remuneration packages including annual performance bonus and other performance linked incentives. Two meetings were held in the year 2022. The members of the Nomination and Remuneration Committee are as follow:

Member Name	Membership Classification	Membership Tenure
Ms. Huda Al-Lawati	Chairman, Independent, Non-Executive	Ongoing
Eng. Talal AlMaiman	Member, Non-Executive	Ongoing
Eng. Rayan Fayez	Member, Non-Executive	Resigned on Nov 1st ,2022
Mr. Badr Al Salloom	Member, Non-Executive	Ongoing, Appointed on Dec 18th ,2022
Ms. Mai Al Hoshan	Member, Non-Executive	Ongoing, Appointed on Dec 18th ,2022

Nomination and Remuneration Committee (NRC) Meetings

Member Name	NRC Meeting (1) 04/12/2022	NRC Meeting (2) 05/12/2022
Ms. Huda Al-Lawati	✓	✓
Eng. Talal AlMaiman	✓	✗
Eng. Rayan Fayez	–	–

Audit Committee

The primary function of the Audit Committee is to examine and evaluate the adequacy and effectiveness of Saudi Fransi Capital's governance, risk management process, internal control structure and the quality of performance in carrying out assigned responsibilities to achieve the strategic goals and objectives. In doing so, the Audit Committee will take guidance from the implementing regulations issued by the Capital Market Authority of Saudi Arabia. It recommends to the board the appointment, dismissal and remuneration of the external auditors, ensures their independence and approves any activity that is beyond the scope of the audit work assigned. It also reviews the interim and annual financial statements prior to presentation to the board of directors, and give opinion and recommendations with respect thereto. Four meetings were held in the year 2022. The members of the Audit Committee are as follow:

Member Name	Membership Classification	Membership Tenure
Mr. Abdulaziz Binhassan	Chairman, Independent, Non-Executive	Resigned on Feb 23rd ,2023
Mr. Abdullah Al Hussaini	Member, Non-Executive	Ongoing
Mr. Adel Mallawi	Member, Non-Executive	Resigned on Oct 30th ,2022
Mr. Abdulmehsen Al Rays	Member, Non-Executive	Ongoing, Appointed on Nov 1st ,2022

Audit Committee (AC) Meetings

Member Name	AC Meeting (1) 21/03/2022	AC Meeting (2) 13/06/2022	AC Meeting (3) 13/09/2022	AC Meeting (4) 01/12/2022
Mr. Abdulaziz Binhassan	✓	✓	✓	✓
Dr. Abdullah AlShehri	✓	✓	✓	✓
Mr. Adel Mallawi	✓	✓	✓	-
Mr. Abdullah Al Hussaini	-	-	-	✓

Compliance Committee

The primary function of the Compliance Committee is to assess and oversee compliance with applicable laws, rules and regulations. The committee seeks input from Compliance and AML/CTF division and provide guidance and status updates on companywide compliance issues to the Board. It annually reviews the policies and procedures of Compliance and AML/CTF. The committee reviews compliance reports and provides guidance and recommendation to the Board, Executive and Audit Committee where needed. It also monitors the corrective actions of regulatory inspection findings and audit findings relevant to Compliance and ensures they are properly rectified. Four meetings were held in the year 2022. The members of the Compliance Committee are as follow:

Member Name	Membership Classification	Membership Tenure
Mr. Abdulaziz Binhassan	Chairman, Independent, Non-Executive	Resigned on Feb 23rd ,2023
Mr. Salam AlKhunaizi	Member, Executive	Ongoing
Ms. Haifa Al Goufi	Member, Executive	Ongoing - Appointed on June 21st ,2022
Mr. Ibrahim AlGhanem	Member, Executive, MLRO	Ongoing
Mr. Khalid AlMetairi	Member, Executive	Resigned on June 19th ,2023
Ms. Aljawharah Fallatah	Member, Executive	Ongoing – Appointed on Aug 1st ,2022

Compliance Committee (CC) Meetings

Member Name	CC meeting (1) 16/03/2022	CC meeting (2) 14/06/2022	CC meeting (3) 13/09/2022	CC Meeting (4) 01/12/2022
Mr. Abdulaziz Binhassan	✓	✓	✓	✓
Mr. Salam AlKhunaizi	✓	✓	✓	✓
Ms. Haifa Al Goufi	-	-	✓	✓
Mr. Ibrahim AlGhanem	✓	✓	✓	✓
Mr. Khalid AlMetairi	✓	✓	-	-
Ms. Aljawharah Fallatah	-	-	✓	✓

Risk Committee

The primary function of the Risk Committee is to assess and oversee risk within the company. The committee seeks input from Risk Management and provide guidance and status updates on companywide risks to the Board. It annually reviews the policies and procedures of Risk Management. In addition, reviews significant investments, divestments and other significant transactions (i.e. acquisitions and joint ventures) and make, as appropriate, recommendations to the Board. One meeting was held in the year 2022. The members of the Risk Committee are as follow:

Member Name	Membership Classification	Membership Tenure
Mr. Badr Al Salloom	Member, Non-Executive	Resigned on Dec 18th ,2022
Mr. Mohammed Al Alshikh	Member, Non-Executive	Ongoing – Appointed on Dec 18th ,2022
Mr. Ravishankar Visvanathan	Member, Non-Executive	Ongoing
Mr. Mutasim Mufti	Chairman, Non-Executive	Ongoing
Mr. Zuhair Mardam	Member, Non-Executive	Ongoing – Appointed on Dec 18th ,2022

*Elizabeth Critchley has resigned on 07/09/2022.

Risk Committee (RC) Meetings

Member Name	RC meeting (1) 19/04/2022
Mr. Badr Al Salloom	✓
Ms. Elizabeth Critchley	✓
Mr. Ravishankar Visvanathan	✓
Mr. Mutasim Mufti	✓

Board and Executive Remuneration for the Year 2022

The table below presents the compensation and remuneration paid to the members of the board and five senior executives who received the highest remunerations during 2022, including the CEO and CFO. All amounts are in SAR unless otherwise stated.

Items	Executive Board Members*	Non-Executive Board Members	Independent Board Members
Allowance for attendance of the board of directors' sessions	15,000	6,000	51,000
Allowances for attendance of the committees' sessions	21,000	6,000	39,000
Periodic and Annual Remunerations	301,644	250,685	1,110,411
Incentive Plans	-	-	-
Any compensations or other in-kind benefits paid monthly or annually	-	-	-
Total	**337,644**	**262,685**	**1,200,411**

* As members of the Board of Directors.

Items	Five of the senior executives who received the highest remunerations, in addition to the CEO and CFO if they are not included
Salaries and wages	7,835,130
Allowances	1,657,026
Periodic and Annual Remunerations	9,044,000
Incentive Plans	3,082,253
Commissions	-
Any compensations or other in-kind benefits paid monthly or annually	-
Total	**21,618,409**

Note: There are no arrangements or agreements whereby a board member or a senior executive waives any compensation or remuneration.

Fines, Penalties and Regulatory Restrictions

- The Capital Market Authority imposed a fine of SAR 250,000 for noncompliance with Sub-Article (5) of Article Five of the Capital Market Institutions Regulations, based on Paragraph (3) of Paragraph (C) of Article 59 of the Capital Market Law. A corrective plan has been implemented to correct the violation and avoid it in the future.
- The Zakat, Tax and Customs Authority imposed a fine of SAR 158,665.20 for non-compliance with the tax time-line obligations.

Annual Audit Assessment of the Effectiveness of the Company's Internal Control Procedures

Internal audit is an independent function within Saudi Fransi Capital that reports directly to the Audit Committee as set by the Board of Directors. It provides management with reasonable assurance about the adequacy of internal controls, the effectiveness of risk management and the company's compliance with policies and procedures as well as applicable rules and regulations. In order to achieve this, risk-based auditing methodology is followed by reviewing the audit universe of the Company and adjusting the audit plan to include new products and services the Company introduces. Internal Audit works with Risk Management, Legal, and Compliance, Anti Money Laundering, and Counter Terrorism Financing divisions to ensure the adequate coverage of associated risks and the application of implemented controls to mitigate them. Moreover, the Audit Committee judiciously monitors the level of effectiveness of the internal audit controls in order to limit the exposure of companywide risks and to ensure the timely implementation of internal audit's recommendation. Based on the annual assessment of the effectiveness of the Company's internal control procedures, there was no fundamental weakness identified in the internal systems and controls of the firm and the Audit Committee views that internal audit controls have been designed to provide comprehensive review of the company's activities, works effectively, and is being continuously monitored. Nonetheless, the management continuously endeavours to enhance and further strengthen the internal control system.

Financial Highlights for the Last Five Years

The table below presents a summary of the last five years' financial highlights. All amounts in Saudi Riyals unless otherwise stated.

Financial Highlights	2018	2019	2020	2021	2022
Total Assets	2,575,267,512	2,945,635,183	2,425,148,039	3,370,387,505	3,157,825,533
Total Liabilities	1,253,582,864	1,546,742,211	1,400,740,268	2,139,689,465	1,724,917,967
Net Income	79,778,648	77,109,146	124,851,350	218,295,101	210,482,628

There has been no reservations made by the External Auditor of the Company on the 2022 year-end financial statements.

Loans to Saudi Fransi Capital

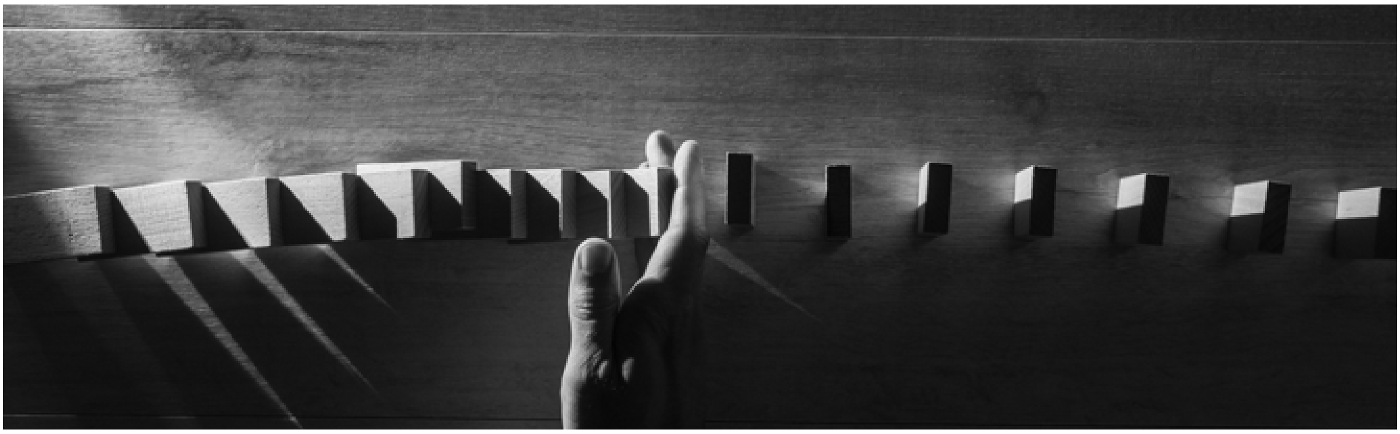
The Company has obtained overdraft facilities from Banque Saudi Fransi for the value of SAR 3,343,750,000 and USD 175,000,000 for a period of one year and is renewed annually. As of December 31, 2022, the outstanding balance was SAR 1,432,138,876.

Board Acknowledgment

Except as already disclosed in related party note, the Board of Directors declares that there are:

- No contracts or businesses during the financial year 2022 to which Saudi Fransi Capital is a party and where there is an interest for a member of the Board of Directors, Chief Executive Officer, senior executives or any person related to any of them.
- No interest and contractual securities to the board members and senior executives in shares of Saudi Fransi Capital. There was no change on those interests during 2022.
- No deals between the firm and any related party.

Risk Management



The primary objectives of the Risk Management function is to ensure that Saudi Fransi Capital's asset and liability profile, trading positions, and credit and operational activities do not expose to losses that could threaten the viability of the firm. The Risk Management Department helps ensure that risk exposures do not become excessive relative to the firm's capital base and financial position. In all circumstances, all activities giving rise to risk are identified, measured, managed and monitored. Risk policy and procedures provides ways to identify the risks, tolerance limits to monitor and processes to manage the breaches.

The Board of Directors and management are responsible for defining the firm's risk appetite, developing a risk management strategy, establishing an overall risk culture, and approving the exposure limit structure for different types of risks. The board is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and implemented, and that an effective risk management framework is in place.

The Company adheres to the principle that all Staff are responsible for identifying and managing risk within the scope of their role, whilst providing effective oversight by the operational and resilience risk function.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Company. Credit risk arises from the Company's direct margin lending operations, or non-funded exposure through trading "settlement" limit under T+2 settlement product or Trading Limit under Independent Custody Model. Credit Risk may also arise from counterparty exposures within the money market funds and other types of managed funds.

The Company maintains credit policies, and procedures to manage credit risk across the Company's portfolios, within approved risk appetite.

The Company operates an independent credit risk function which provides high level oversight and management of credit risk for Saudi Fransi Capital "SFC", aligned with CMA regulations. Its primary responsibilities include: independent risk assessment to ensure applications conform with SFC's credit policy and local applicable regulations; guiding business segments on the Company's appetite for various credit exposures.

Credit risk at Saudi Fransi Capital is monitored using a variety of credit risk management techniques such as assigning setting limits, monitoring credit exposures, limiting transactions with specific counterparties, continually assessing the creditworthiness of counterparties

Concentrations of credit risk which can also arise from large exposures to a single borrower or group of related borrowers or exposure to specific sectors or stocks within the portfolio's collateral are continuously monitored by Risk Management Department through the use of internal and regulatory limits clearly stipulated within the Risk Appetite.

Market Risk

Market Risk is the risk that movements in market factors, including foreign exchange rates, commission rates, interest rate and spreads on margin facilities and equity prices, which could reduce our income or the value of our principal investment portfolios. Saudi Fransi Capital manages market risk through the establishment of risk limits, which restrains extra risk taking. These risk limits are established using a variety of dynamic risk measurement tools including sensitivity analysis, value-at-risk and stress test methodologies.

Liquidity Risk

Liquidity risk is the risk that SFC does not have sufficient financial resources to meet its obligations as they fall due or that it can only do so at an excessive cost. Liquidity risk also arises from mismatches in the timing of cash flows.
Saudi Fransi Capital manages its balance sheet liquidity by collating the projected cash flows and liquidity profiles of its financial assets and liabilities, with the aim of addressing various liquidity needs, such as routine expenses, cyclical market fluctuations, future changes in market conditions, or a change in the appetite of liquidity providers.
The firm also monitors limits for current ratios, liquidity coverage, and the ratio of cumulative gap to total liabilities on a regular basis to ensure that Saudi Fransi Capital is self-funded during stressed scenarios. The Liquidity Coverage Ratio (LCR) ensures that Saudi Fransi Capital has adequate stock of unencumbered, high-quality liquid assets that can be converted instantly into cash to meet the firm’s liquidity needs for 30 calendar days.

- **Contingency Funding Plan:** Saudi Fransi Capital draws a contingency funding plan at the beginning of each year to address any liquidity crises. The company carefully s triggers where contingency fund is required. The contingency funding plan clearly assesses the sources of funding through diverse resources and is presented to the board for approval.

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people,
and systems, or from external events. Saudi Fransi Capital uses a Risk Control Self-Assessment (RCSA) approach to identify operational risks and appropriate controls to ensure steady functioning of work environment. This operational risk framework enables the firm to comprehend inherent risk level, residual risk level and to highlight such risks to the team in order to proactively identify existing and emerging risks and effectively manage, transfer, avoid, or mitigate their impact.

More details on financial risks are provided under Note 17 of the financial statement.

Financial Statements

SAUDI FRANSI CAPITAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

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

SAUDI FRANSI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Independent auditor's report to the shareholder of Saudi Fransi Capital Company (A Saudi Closed Joint Stock Company)

Our opinion

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

What we have audited

The Company's financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

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

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

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

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

The Audit committee is responsible for overseeing the Company's financial reporting process.

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Independent auditor's report to the shareholder of Saudi Fransi Capital Company (A Saudi Closed Joint Stock Company) (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

PricewaterhouseCoopers

Bader I. Benmohareb
License Number 471

March 27, 2023

SAUDI FRANSI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31,	
		2022	**2021**
Assets			
Current assets			
Cash and bank balances	3	**786,544,412**	1,289,073,836
Margin / murabaha financing	4	**1,425,062,006**	1,767,000,191
Investments held at fair value through statement of income (FVSI)	6	**4,484,988**	-
Prepayments and other receivables – net	7	**356,540,297**	58,033,757
Loans to employees - net	8	**3,366,487**	1,373,608
Advance income tax		**-**	13,173,718
Total current assets		**2,575,998,190**	3,128,655,110
Non-current assets			
Property, equipment and intangible assets, net	9	**33,118,822**	27,775,677
Investments held at fair value through other comprehensive income (“FVOCI”)	5	**540,772,767**	198,054,195
Loans to employees – net	8	**7,935,754**	15,902,523
Total non-current assets		**581,827,343**	**241,732,395**
Total assets		**3,157,825,533**	3,370,387,505
Liabilities and Shareholder’s equity			
Liabilities			
Current liabilities			
Short-term borrowings	10	**1,432,138,876**	1,767,539,422
Accrued and other liabilities	11	**186,422,681**	259,203,556
Deferred income		**11,114,011**	10,434,916
Employees’ benefit obligations	13.4	**10,455,449**	3,782,272
Zakat and income tax provisions	12	**29,416,600**	37,061,940
Total current liabilities		**1,669,547,617**	2,078,022,106
Non-current liability			
Employees’ benefit obligations	13.4	**55,370,350**	61,667,359
Total non-current liability		**55,370,350**	61,667,359
Total liabilities		**1,724,917,967**	2,139,689,465
Shareholder’s equity			
Share capital	1	**500,000,000**	500,000,000
Statutory reserve		**150,000,000**	150,000,000
Retained earnings		**801,783,596**	591,300,968
Re-measurements reserve of employees’ benefit obligations		**(4,440,387)**	(10,694,153)
Re-measurement reserve for FVOCI debt investments		**(13,217,734)**	91,225
Re-measurement reserve for FVOCI equity investments		**(1,217,909)**	-
Net shareholder’s equity		**1,432,907,566**	1,230,698,040
Total liabilities and shareholder’s equity		**3,157,825,533**	3,370,387,505

The accompanying notes from 1 to 21 form an integral part of these financial statements.

SAUDI FRANSI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF INCOME
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31, 2022	2021
Operating income			
Income from brokerage services - net		**101,986,591**	163,272,395
Income from asset management services - net		**149,517,006**	165,347,914
Income from advisory and investment banking services – net		**60,295,231**	51,720,664
Income from margin / murabaha financing		**88,537,090**	39,477,601
Realized gain on redemption of trading securities		**2,766,883**	3,048,508
Unrealized loss on trading securities		**(863,393)**	-
Dividend income		**13,317,959**	209,959
Custody services related fees		**3,120,165**	3,068,071
Total operating income		**418,677,532**	426,145,112
Operating expenses			
Salaries and employees' related benefits		**(162,196,655)**	(152,079,494)
Other general and administrative expenses	15	**(49,947,132)**	(48,000,519)
Expected credit loss ("ECL") on financial assets	17.2.1	**(592,682)**	(687,677)
Marketing expenses		**(998,416)**	(318,736)
Total operating expenses		**(213,734,885)**	(201,086,426)
Income from operations		**204,942,647**	225,058,686
Other income / (expenses)			
Special commission expense on short-term borrowings	16.1	**(58,979,406)**	(12,170,649)
Special commission income		**89,114,201**	42,262,381
Others		**1,122,064**	2,728,868
Income before zakat and income tax		**236,199,506**	257,879,286
Zakat expense	12.1	**(18,943,908)**	(37,706,801)
Income tax expense	12.1	**(6,772,970)**	(1,877,384)
		(25,716,878)	(39,584,185)
Net income for the year		**210,482,628**	218,295,101

The accompanying notes from 1 to 21 form an integral part of these financial statements.

SAUDI FRANSI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31, 2022	2021
Net income for the year		**210,482,628**	218,295,101
Other comprehensive income:			
Items that will not be reclassified subsequently to the statement of income			
-Net fair value changes of equity instruments		**(1,217,909)**	-
-Re-measurement gain / (loss) on employees' benefit obligations, net	13.3	**6,253,766**	(12,096,057)
Items that will be reclassified subsequently to the statement of income			
-Net fair value changes including allowance for ECL of debt instruments		**(13,308,959)**	91,225
Other comprehensive loss for the year		**(8,273,102)**	(12,004,832)
Total comprehensive income for the year		**202,209,526**	206,290,269

The accompanying notes from 1 to 21 form an integral part of these financial statements.

SAUDI FRANSI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Re-measurements reserve of employees' benefit obligations	Re-measurement reserve for FVOCI investments		Total
					Debt	Equity	
Balance at January 1, 2022	**500,000,000**	**150,000,000**	**591,300,968**	**(10,694,153)**	**91,225**	**-**	**1,230,698,040**
Net income for the year	**-**	**-**	**210,482,628**	**-**	**-**	**-**	**210,482,628**
Other comprehensive loss for the year	**-**	**-**	**-**	**6,253,766**	**(13,308,959)**	**(1,217,909)**	**(8,273,102)**
Total comprehensive income for the year	**-**	**-**	**210,482,628**	**6,253,766**	**(13,308,959)**	**(1,217,909)**	**202,209,526**
December 31, 2022	**500,000,000**	**150,000,000**	**801,783,596**	**(4,440,387)**	**(13,217,734)**	**(1,217,909)**	**1,432,907,566**
Balance at January 1, 2021	500,000,000	134,044,673	388,961,194	1,401,904	-	-	1,024,407,771
Net income for the year	-	-	218,295,101	-	-	-	218,295,101
Other comprehensive loss for the year	-	-	-	(12,096,057)	91,225	-	(12,004,832)
Total comprehensive income for the year	-	-	218,295,101	(12,096,057)	91,225	-	206,290,269
Transfer to statutory reserve	-	15,955,327	(15,955,327)	-	-	-	-
Balance at December 31, 2021	500,000,000	150,000,000	591,300,968	(10,694,153)	91,225	-	1,230,698,040

The accompanying notes from 1 to 21 form an integral part of these financial statements.

SAUDI FRANSI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals unless otherwise stated)

		Year ended December 31,	
	Notes	2022	2021
Cash flows from operating activities			
Income before zakat and income tax		**236,199,506**	257,879,286
Adjustments for non-cash charges and other items			
Depreciation and amortization	9	**3,139,214**	3,656,648
Employees' benefit obligations - LTIP	13.2	**16,434,525**	(908,584)
Provision for employees' end of service benefits ("EOSB)	13.1	**8,233,917**	7,731,581
ECL on doubtful receivable and others, net	7 & 17.2.1	**450,133**	592,715
ECL on investments classified as debt instruments	17.2.1	**219,951**	91,225
ECL (reversal) / charge on loans to employees – net	17.2.1	**(77,402)**	3,737
Impairment provision – Capital work in progress		**1,656,524**	-
Loss / (gain) on disposal of property and equipment		**34,623**	(181,000)
Dividend income		**(13,317,959)**	-
Interest income on investments at FVOCI		**(11,706,511)**	-
Unrealised fair value loss on investment at FVSI	6.2	**863,392**	-
Changes in working capital			
Margin / murabaha financing		**341,938,185**	(413,501,531)
Investment at FVSI		**(5,348,380)**	-
Prepayments and other receivables		**(296,391,868)**	(31,952,211)
Advance income tax		**10,886,019**	(9,060,670)
Loans to employees - net		**6,051,292**	204,657
Short-term borrowings		**(335,400,546)**	513,895,355
Accrued and other liabilities		**(79,553,845)**	197,555,446
Deferred income		**679,095**	5,908,458
Employees' benefit obligations - Employees' EOSB and LTIP paid	13.1 & 13.2	**(18,038,508)**	(4,570,141)
Zakat and income tax paid	12.1	**(26,589,248)**	(27,789,030)
Advance income tax refund		**2,287,699**	-
Net cash (used in) / generated from operating activities		**(157,350,192)**	499,555,941
Cash flows from investing activities			
Additions to property, equipment and intangible assets	9	**(10,177,506)**	(7,713,192)
Proceeds from disposal of property and equipment		**4,000**	181,000
Purchase of FVOCI investments, net		**(352,131,070)**	(198,029,195)
Interest received on FVOCI investments		**6,372,190**	-
Dividends received		**10,753,154**	-
Net cash used in investing activities		**(345,179,232)**	(205,561,387)
Net change in cash and bank balances		**(502,529,424)**	293,994,554
Cash and bank balances at the beginning of the year		**1,289,073,836**	995,079,282
Cash and bank balances at the end of the year	3	**786,544,412**	1,289,073,836

The accompanying notes from 1 to 21 form an integral part of these financial statements.

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Saudi Fransi Capital Company (the "Company") is a Saudi Closed Joint Stock Company. The Company was registered as a limited liability Company in the Kingdom of Saudi Arabia under commercial registration number 1010231217 issued in Riyadh on Rabi-Al Awwal 26, 1428H (corresponding to April 14, 2007). The Company was converted from a limited liability company to a closed joint stock company on Rabi Al-Awwal 29, 1438H (corresponding to December 28, 2016) which is the date of new commercial registration. The Company's statutory financial statements are prepared from January 1 and to the end of December of each Gregorian year.

The registered address of the Company is P.O. Box 3735, Riyadh 12313, Kingdom of Saudi Arabia. The Company is 100% owned by Banque Saudi Fransi (the "Bank").

The Company obtained Capital Market Authority ("CMA") license number 07052-05 on Muharam 19, 1428H (corresponding to February 7, 2007), and obtained the commencement letter from CMA on Muharam 4, 1429H (corresponding to January 13, 2008).

The licensed activities are to act as a principal, underwriter, and agent to provide dealing of securities, managing, arranging, advisory and custody services for securities activities.

During the year ended December 31, 2010, the management of the Bank resolved to merge CAAM Saudi Fransi Company Limited and Calyon Saudi Fransi Limited (together "the Merged Companies") into Fransi Tadawul Company and change its name to Saudi Fransi Capital Company. The CMA Board of Commissioners issued a resolution dated Safar 26, 1432H (corresponding to January 30, 2011) (the merger date) approving the merger of the associated companies into the Company, change of its name, increase in paid-up share capital to Saudi Riyals 500 million and amending its licensed activities with immediate commencement of its activities under new license number 11153-37.

The Company is in the process of deregistering the commercial records of the merged companies CAAM Saudi Fransi Company Limited with the commercial registration number 1010235891 dated Rajab 4, 1428H (corresponding to July 18, 2007) and Calyon Saudi Fransi Limited with the commercial registration number 1010241446 dated Dhul Qa'dah 29, 1428H (corresponding to February 11, 2008).

The Company's ownership structure is set out below:

Shareholder	**Country of origin**		**December 31, 2022**	**December 31, 2021**
Banque Saudi Fransi	Saudi Arabia	Number of shares	500,000	500,000
		Share capital (SR)	500,000,000	500,000,000

The Bank has 100% Saudi shareholders (2021: 100%).

These financial statements were approved and authorised for issue by the Company's Board of Directors on 30 Sha'ban 1444H (corresponding to March 22, 2023).

2 Significant accounting policies

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

2.1 Basis of preparation

(i) Compliance with IFRS

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

(ii) Historic cost convention

These financial statements have been prepared:

- under the historical cost convention except for:
  - fair valuation of investments held at fair value through other comprehensive income ("FVOCI") and through statement of income
  - employees' end of service benefits ("EOSBs") carried at present value using Projected Unit Credit Method
- using accrual basis of accounting.

(iii) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals ("SAR") which is the functional currency of the Company.

(iv) Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs that are endorsed in the Kingdom of Saudi Arabia requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Mutual fund as equity

The Company has made investments in mutual funds. These have been classified as equity by the management. Judgement has been exercised with respect to the classification. It fulfils the definition of equity based on management's assessment including the fact that there is no put option / redemption clause available to investor, there is guaranteed return or repayment etc.

2 Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(v) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2022:

- *Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16*
- *Reference to the Conceptual Framework – Amendments to IFRS 3*
- *Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37*
- *Annual Improvements to IFRS Standards 2018–2020*

The amendments listed above did not have any impact on the financial statements of the Company.

(vi) New standards not yet effective and not early adopted by the Company

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for December 31, 2022 reporting periods and have not been early adopted by the Company. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(vii) Going concern

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

2.2 Cash and bank balances

Cash and bank balances include cash in hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the purchase date.

Cash and bank balances are carried at amortized cost in the statement of financial position.

2.3 Financial instruments

2.3.1 Classification and measurement of financial assets

2.3.1.1 Initial recognition and measurement

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The Company records financial instruments on a 'trade date' basis.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through statement of income, 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. For financial assets or financial liabilities held at fair value through statement of income, the transaction costs are expensed in the statement of income. Immediately after initial recognition, an expected credit loss allowance ("ECL") is recognized for debt financial assets measured at amortized cost, which results in an ECL charge being recognized in the statement of income when an asset is newly originated.

2 Significant accounting policies (continued)

2.3 Financial instruments (continued)

2.3.1 Classification and measurement of financial assets (continued)

2.3.1.2 Classification and subsequent measurement of financial assets

On initial recognition, the Company classifies its financial assets in the following measurement categories:

- Amortized cost
- Fair value through other comprehensive income ("FVOCI")
- Fair value through statement of income ("FVSI")

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective.

Classification and subsequent measurement of debt instruments depend on:

- The Company's business model for managing the asset; and
- The contractual cash flow characteristics of the asset.

Business model: The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g., financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVSI.

Factors considered by the Company in determining the business model for a group of assets include:

- past experience on how the cash flows for these assets were collected;
- how the asset's performance is internally evaluated and reported to key management personnel;
- how risks are assessed and managed; and
- how managers are compensated.

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

Debt securities held for trading, if any, are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVSI.

SPPP: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payment of principal and profit (the "SPPP" test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e., profit (or special commission income) includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the SPPP test does not pass, and the related financial asset is classified and measured at FVSI.

2 Significant accounting policies (continued)

2.3 Financial instruments (continued)

2.3.1 Classification and measurement of financial assets (continued)

2.3.1.2 Classification and subsequent measurement of financial assets (continued)

The SPPP assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit ("SPPP"), and that are not designated at FVSI, are measured at amortized cost. The carrying amount of these assets is adjusted by any ECL allowance recognized and measured as described in Note 2.3.2. Profit earned from these financial assets is recognized in the statement of income using the effective commission rate method.

Fair value through statement of income ("FVSI"): If debt instrument's cash flows do not represent solely SPPP or if it is not held within the held to collect or the held to collect and sell business model, or if it is designated at FVSI, then it is measured at FVSI. A gain or loss on a debt investment measured at FVSI, where cashflows do not represents solely SPPP, is recognized in the statement of income, within "Net gain/(loss) on investments mandatorily measured at FVSI", in the period in which it arises. A gain or loss from debt instruments that were designated at fair value or which are held for trading are presented separately from debt investments that are mandatorily measured at FVSI, within "Net gain / (loss) in investments designated at FVSI or held for trading".

Fair value through other comprehensive income ("FVOCI"): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and profit, and that are not designated at FVSI, are measured at fair value through other comprehensive income ("FVOCI"). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in statement of income. When the debt financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to statement of income.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the year.

Currently bank balances, margin / murabaha financing receivables, loans to employees - net and other receivables are classified as held at amortized cost. There are certain sukuks which have been classified as FVOCI. There are no debts securities classified as FVSI.

<u>Equity instruments</u>

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

2 Significant accounting policies (continued)

2.3 Financial instruments (continued)

2.3.1 Classification and measurement of financial assets (continued)

2.3.1.2 Classification and subsequent measurement of financial assets (continued)

The Company subsequently measures all equity investments at FVSI, except where the Company has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to trade. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to the statement of income, including on disposal. On disposal, fair value gains/losses are transferred directly from fair value reserve to retained earnings. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in the statement of income when the Company's right to receive payments is established.

The Company has irrevocably elected/designated investments in shares of an unquoted equity and mutual funds units in four funds in the real estate and financing sector, respectively, as held as FVOCI.

Some equity shares have been classified as held at FVSI.

2.3.2 Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit loss ("ECL") associated with its financial assets carried at amortized cost. The Company recognizes 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.

IFRS 9 outlines a 'three stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

(i) A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored.
(ii) If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
(iii) If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
(iv) Financial instrument in Stage 1 has their ECL measured at an amount equal to the portion of expected credit losses that result from the default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
(v) A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
(vi) Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

2 Significant accounting policies (continued)

2.3 Financial instruments (continued)

2.3.2 Impairment of financial assets (continued)

Stage 1: (Initial recognition) 12-month expected credit losses
Stage 2: (Significant increase in credit risk since initial recognition) Lifetime expected credit losses
Stage 3: (Credit impaired assets) Lifetime expected credit losses

The financial assets of the Company, that are subjected to ECL review include bank balances, margin / murabaha financing, loans to employees - net and other receivables.

The impact of ECL on the financial assets of the Company other than loans to employees and receivables from customers is immaterial. A significant exposure of the Company is held as placement with the Bank which has a sound credit rating as at the reporting date and the Company considers that it has low credit risk. The rating of the Bank as at December 31, 2022 was A-2 (December 31, 2021: "A-2") as per Standard and Poor's (S&P).

ECL on margin / murabaha financing is Nil due to the factors mentioned in Note 2.3.2.3.

For ECL measurement on loans to employees and other receivables please refer Note 2.3.2.3.

The Company considers that the remaining financial assets are immaterial and have low credit risk.

2.3.2.1 Stages of impairment under IFRS 9

The impairment approach of IFRS 9 provides a framework for Expected Credit Losses ("ECL") where in, the assets have to be segmented into three stages. The three stages reflect the general pattern of credit deterioration of a financial asset. The three stages differ in terms of recognition of expected credit losses and the presentation of special commission income.

Stage 1 - Performing financial assets

Stage 1 assets are assessed based on Company's existing credit risk management standards for acceptable credit quality. Overall, the financial assets falling under this category have the following characteristics at minimum:

- Adequate capacity to meet its contractual cash flow obligations in the near term; and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability to fulfil its obligations.

Stage 2 - Financial Assets with significant increase in credit risk

These are financial assets whose credit quality has deteriorated significantly since origination but do not have objective evidence of impairment.

Stage 3 - Credit impaired financial assets

Financial assets classified under this category have exceeded either the objective thresholds set by the Company i.e., have defaulted or have been subjectively considered as obligors which lack a capacity to repay their contractual obligations, on a timely basis.

The Company considers "Default" event when the obligor is unlikely to pay for its credit obligations in full, without recourse by the Company to the actions such as realizing security (if held).

2 Significant accounting policies (continued)

2.3 Financial instruments (continued)

2.3.2 Impairment of financial assets (continued)

2.3.2.2 Transfer criteria

Margin / murabaha financing

The transfer criterions are based on the breaches in the Company's equity proportion. As and when the Company revises the margin and liquidation benchmarks, the transfer criterion is modified accordingly to reflect the appropriate credit risk in each of the stages.

Stage 1 to Stage 2

- Any significant increase in credit risk would trigger transfer of an asset from Stage 1 to stage 2 depending on the level of deterioration.
- As and when the collateralization level of the client breaches 125% and subsequently margin is called, the asset would be migrated to Stage 2.

Stage 2 to Stage 3

- For an asset in Stage 2, if the client's collateralization level falls below 100%, the client shall be considered credit impaired, and the asset would be moved to Stage 3.

Loans to employees and other receivables

Stage 1 to Stage 2

- If the loan of the employees and other receivables is more than 30 days past due.

Stage 2 to Stage 3

- If the loan of the employees and other receivable is more than 90 days past due.

2.3.2.3 Expected credit loss measurement

Margin / murabaha financing

Staging criteria:

Staging is done in accordance with criteria mention in Note 2.3.2.1.

Significant increase in credit risk:

A decrease in collateral percentage below 125% is considered as a significant increase in credit risk and such exposures are transferred to stage 2.

Definition of default:

For the purpose of default rate calculation, the Company has used the liquidation events as trigger for defaults. The default rate as at reporting date equals the number of accounts defaulting in the next 12 months from reporting date divided by the total number of performing accounts during the reporting month.

2 Significant accounting policies (continued)

2.3 Financial instruments (continued)

2.3.2 Impairment of financial assets (continued)

2.3.2.3 Expected credit loss measurement (continued)

Measurement of ECL:

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. The Company has never suffered any loss on liquidations since incorporation by recovering the amounts fully. Therefore, the historical experience relating to LGD has been 0%. Given the nature and extent of the collateral held against the Company's margin financing exposures, the management considers the credit risk of the exposures to be minimal. In accordance with the policy of the Company, the margin financing facilities should be 200% collateralized and the facility is liquidated if the collateral coverage ratio drops below the liquidation level of 144%. Therefore, generally, no exposure is classified as stage 2 as it is already liquidated at 144%. Hence, even though there might be small probability of default, the ECL would result in zero impairment provision, as the pledged collateral (in the form of cash or liquid securities) covers the exposure at least to 150%. The over-collateralized nature of the exposure has been observed and expected to result in a loss given default ("LGD") of 0%.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Loans to employees and other receivables

Staging criteria:

Staging is done in accordance with criteria mention in Note 2.3.2.1.

Significant increase in credit risk:

For each exposure any increase in past due days from 30 days is considered as a significant increase in credit risk and such exposures are transferred to stage 2.

2 Significant accounting policies (continued)

2.3 Financial instruments (continued)

2.3.2 Impairment of financial assets (continued)

2.3.2.3 Expected credit loss measurement (continued)

Definition of default:

The Company considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Company in full; or
- the borrower is past due more than 90 days on any material credit obligation to the Company.

In assessing whether a borrower is in default, the Company considers indicators that are:
- qualitative - e.g., breaches of covenant;
- quantitative - e.g., overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Measurement of ECL:

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. PDs are estimated considering binomial distribution of total borrowers and total defaults. The choice of confidence level is subjective and a confidence level of below 90% is used for calculation of PD.

LGD is the magnitude of the likely loss if there is a default. As the Company has no loss history, an expert judgment-based model has been developed, based on the available information with the Company. Market value is calculated at initiation. A discount of 20% is applied to the market value to estimate the current market value. This is further discounted by 10% to adjust for the other direct and indirect costs to realize the receipts from the collateral to arrive at the total market value of the exposure. A coverage analysis is done between the market value and outstanding amount to arrive at the LGD.

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

2 Significant accounting policies (continued)

2.3 Financial instruments (continued)

2.3.3 Financial liabilities

All financial liabilities are initially recognized at fair value less transaction costs except for financial liabilities measured at FVSI where transactions cost, if any, are not deducted from the fair value measurement at initial recognition and are included in the statement of income.

Subsequently, all special commission bearing financial liabilities other than those held at FVSI are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement.

2.3.4 Fair valuation of financial instruments

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

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

The principal or the most advantageous market must be accessible by the Company.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset’s highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

2.3.5 Derecognition of financial instruments

A financial asset is derecognized, when the contractual rights to receive the cash flows from the financial asset expire or the asset is transferred, and the transfer qualifies for de-recognition. In instances where the Company is assessed to have transferred a financial asset, the asset is derecognized if the Company has transferred substantially all the risks and rewards of ownership. Where the Company has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Company has not retained control of the financial asset. The Company recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expired.

2 Significant accounting policies (continued)

2.3 Financial instruments (continued)

2.3.6 Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is an enforceable legal right to offset the recognized amounts and there is an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.4 Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the expenditure that is directly attributable to the acquisition of the items and borrowing cost (where applicable). All other repair and maintenance costs are recognized in the statement of income as incurred.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will follow to the Company and the cost of that item can be measured reliably.

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

	Years
Leasehold improvements	5 to 10 Years
Furniture and office equipment	4 to 10 Years
Motor vehicles	4 Years

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

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

Work in progress is stated at cost incurred less accumulated impairment, if any, until the asset is ready for its intended use, thereafter, this cost is capitalized on the related assets. This includes the cost of contractors, materials, services, and capital advances. Work in progress is not depreciated.

2.5 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization of intangible assets is calculated on a straight-line basis over the estimated useful life of 3 years.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income under 'other general and administrative expenses.

2 Significant accounting policies (continued)

2.5 Intangible assets (continued)

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

2.6 Impairment of non-financial assets

Property and equipment and other non-financial assets

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

2.7 Short-term borrowings

Short-term borrowings are initially recognized at fair value, net of transaction costs incurred. Short-term borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in statement of income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

2. Significant accounting policies (continued)

2.7 Short-term borrowings (continued)

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Short-term borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the statement of income as other income or finance costs.

Short-term borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.8 Accrued and other liabilities

Liabilities are recognized for amounts to be paid for goods or services received, whether or not billed to the Company. The Company is carrying these at amortized cost.

2.9 Provisions

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

2.10 Employees' benefits obligations

2.10.1 Employees' end of service benefits ("EOSBs")

The provision for employees' end of service benefits ("EOSBs") is made based on an actuarial valuation of the Company's liability under the Saudi Arabian Labour Law.

In accordance with the provisions of IAS 19 "Employee benefits", management carries out an exercise to assess the present value of its obligations, using the Projected Unit Credit Method. Under this method an assessment is made of the employees' expected service life with the Company and expected salary at the date of leaving the service.

The cost of providing benefits under the Company's defined benefit plans is determined using the projected unit credit method by professionally qualified actuaries and arrived at using actuarial assumptions based on the market expectations at the date of statement of financial position. These valuations attribute entitlement benefits to the current period (to determine the current service cost). Re-measurements, comprising of actuarial gains and losses, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through statement of comprehensive income in the period in which these occur. Re-measurements are not reclassified to statement of income in subsequent periods.

Past service costs are recognized in the statement of income on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Company recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability. The defined benefit liability in the statement of financial position comprises the present value of the defined benefit obligation (using a discount rate).

2 Significant accounting policies (continued)

2.10 Employees' benefits obligations (continued)

2.10.2 Other long-term employees' benefits obligations

The Company has other long-term employees' benefits obligations (i.e., ex-gratia benefits and long-term incentive plan) that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service and upon the satisfaction of certain conditions. These obligations are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period, using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of experience adjustments and changes in actuarial assumptions are recognized in the statement of comprehensive income.

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

2.11 Share capital

Ordinary shares are classified as equity.

2.12 Statutory reserve

As required by Saudi Arabian Regulations for Companies, 10% of the net income for the year is transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution.

2.13 Zakat and income taxes

The Company is subject to Zakat and income tax in accordance with the regulation of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat and income taxes are charged to the statement of income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

Deferred tax is provided in full, if material, using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred tax liability is settled.

Deferred tax relating to items recognized outside statement of income is recognized either in statement of comprehensive income or directly in equity.

2 Significant accounting policies (continued)

2.13 Zakat and income taxes (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Company has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Company also withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Value added tax (“VAT”)

Output VAT related to revenue is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the statement of financial position on a gross basis and disclosed separately as an asset and a liability. Where provision has been made for ECL of receivables, the impairment loss is recorded for the gross amount of the receivable, including VAT.

2.14 Determination of control over investment funds

The Company acts as a Fund Manager to a number of mutual funds. Determining whether the Company controls such a mutual fund usually focuses on the assessment of its aggregate economic interests of the Company in the Fund (comprising any carried profits and expected management fees) and the investor’s rights to remove the fund manager. As a result, the Company has concluded that it acts as an agent for the investors in those mutual funds in all cases, and therefore has not consolidated these funds.

2.15 Assets held in trust or in a fiduciary capacity

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

2 Significant accounting policies (continued)

2.16 Revenue

The Company recognizes revenue under IFRS 15 using the following five steps model:

Step 1: Identify the contract with customer	A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
Step 2: Identify the performance obligations	A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
Step 3: Determine the transaction price	The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
Step 4: Allocate the transaction price	For a contract that has more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.
Step 5: Recognize revenue	The Company recognizes revenue as it satisfies a performance obligation by transferring a promised good or service to the customer under a contract.

Based on the above five steps the revenue recognition policies for the various revenue streams are as follow:

Brokerage income

Brokerage income is recognized 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 Company is satisfied when the Company carries out the transaction, which is considered as a performance obligation satisfied at a point in time, which triggers immediate recognition of the revenue, as the Company will have no further commitments.

Asset management fees

Asset management fees are recognized based on a fixed percentage of net 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 Company attributes the revenue from management fees to the services provided during the period, because the fee relates specifically to the Company's efforts to transfer the services for that period. As asset management fees are not subject to claw backs, the management does not expect any significant reversal of revenue previously recognized.

This fee compensates and contributes to single performance obligation, the Company's obligation will generally be satisfied upon the provision of non-restrictive legal custodial structure and therefore recognized over time as the overall services are performed.

2 Significant accounting policies (continued)

2.16 Revenue (continued)

Advisory and investment banking services revenue

Advisory and investment banking services revenue is recognized when services are determined as complete in accordance with the underlying agreement, agreed with the customer and invoiced, as generally set forth under the terms of the engagement.

Revenue recognition of retainer fees is recognized over a period of time and it is generally linked to the timing of performance obligation (i.e., monthly, quarterly, etc.).

Success fees are recognized upon the fulfillment of performance obligations. For example, either on the satisfaction of financial advisory services or completion of underwriting agreement.

Dividend income

Dividend income is recognized when the right to receive dividend is established.

Underwriting fees

Underwriting fees are recognized when the Company has rendered all services to the issuer and is entitled to collect the fee from the issuer with no contingencies associated with the fees. Underwriting revenues are presented net of transaction-related expenses.

Custody Fee

Custody fee is received upfront and amortized over the period of the service (deferred income).

2.17 Special commission income

Income from margin financing

Income from margin financing facilities is recognized on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit rate agreed with the customer.

Income from murabaha financing

Income from murabaha is received upfront and amortized through the life of the murabaha (deferred income) on effective commission rate basis.

The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective commission rate, the Company estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective commission rate and the change in carrying amount is recorded as impairment loss.

Income from deposits

Income from deposits is recognized on an accrual basis based on effective commission rate method.

2 Significant accounting policies (continued)

2.18 Expenses

Marketing expenses are those which specifically relate to promotion and advertising. All other expenses, other than employees' costs, financial charges and expenses allocated by Banque Saudi Fransi are classified as 'other general and administrative expenses'.

2.19 Finance cost

Expenses from short-term borrowing are recognized on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit rate agreed with the Bank.

2.20 Leases

Right of use asset ("RoU") / lease liabilities

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

Right of use assets

The Company applies cost model and measures the right of use asset at cost;
a) Less any accumulated depreciation and any accumulated impairment losses; and
b) Adjusted for any re-measurement of the lease liability for lease modifications.

Generally, at the commencement date, the RoU asset would equate to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transaction etc. they need to be added to the RoU asset value.

Lease liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor.

After the commencement date, the Company measures the lease liability by:
1. Increasing the carrying amount to reflect the interest on the lease liability,
2. Reducing the carrying amount to reflect the lease payments made: and
3. Re-measuring the carrying amount to reflect any re-assessment or any lease modification.

Short-term and low values leases

Payments associated with short-term leases and leases of low value assets are recognized on a straight-line basis as an expense in the statement of income. Short-term leases are leases with a lease term of 12 months or less. Leases below SAR 180 thousand are considered as low value.

2.21 Foreign currencies transactions and balances

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at the dates of the transaction. Assets and liabilities denominated in foreign currencies at the period-end are translated into Saudi Arabian Riyals at the exchange rates prevailing at the statement of financial position date. Realized and unrealized gains or losses on exchange are credited or charged to the statement of income.

(All amounts in Saudi Riyals unless otherwise stated)

2 Significant accounting policies (continued)

2.22 Contingent assets and liabilities

A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of obligations cannot be measured with reasonable reliability. Contingent assets are not recognized but are disclosed where an inflow of economic benefits is probable.

2.23 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

3 Cash and bank balances

	As of December 31, 2022	As of December 31, 2021
Cash in hand	**10,000**	10,000
Cash at bank - current accounts (Note 3.1)	**786,534,412**	1,289,063,836
	786,544,412	1,289,073,836

3.1 This represents account maintained with the Bank. SAR denominated balances earn special commission income which is linked to Saudi Inter Bank Offer Rate (SIBOR + agreed spread).

4 Margin / murabaha financing

The Company extends margin / murabaha financing facilities to its customers to invest in the Saudi Stock Exchange, international stock exchanges and investment funds. These facilities are extended up to a maximum period of 1 year and bear fixed / floating special commission rates based on Benchmark rate plus agreed spread except for murabaha facilities which are at fixed rates.

5 Fair value through other comprehensive income (FVOCI)

	As of December 31, 2022	As of December 31, 2021
Mutual funds	**119,373,535**	105,177,698
Sukuks	**346,374,232**	92,851,497
Equities	**75,025,000**	25,000
Total	**540,772,767**	198,054,195

The credit quality of investments is disclosed in Note 17.2.1.

(All amounts in Saudi Riyals unless otherwise stated)

6 Fair value through statement of income (FVSI)

	As of December 31, 2022	As of December 31, 2021
Equities	**4,484,988**	-
Total	**4,484,988**	-

6.1 The sector-wise analysis of investments held at FVSI is as below;

	As of December 31, 2022		As of December 31, 2021	
Sector	**Cost**	**Market value**	**Cost**	**Market value**
Retailing	**3,105,000**	**2,443,500**	-	-
Materials	**1,559,250**	**1,464,750**	-	-
Capital goods	**684,130**	**576,738**	-	-
Total	**5,348,380**	**4,484,988**	-	-

6.2 As at 31 December 2022, the unrealised fair value loss amounts to SAR 863,392 (2021: Nil).

7 Prepayments and other receivables – net

	Note	As of December 31, 2022	As of December 31, 2021
Collateral deposits		**189,261,397**	1,250,000
Receivable from customers and third-party funds	7.1	**141,175,856**	41,589,831
Other receivables		**12,321,547**	6,220,992
Receivable from Company managed mutual funds		**9,295,887**	6,051,526
Prepayments		**4,523,129**	3,646,955
Total prepayments and other receivables – gross		**356,577,816**	58,759,304
Allowance for ECL on doubtful receivables:			
- Receivables from customers	7.2	**(37,519)**	(725,547)
Prepayments and other receivables – net		**356,540,297**	58,033,757

7.1 This represents amounts receivable from the managed mutual funds (related parties) against management fee and expenses paid on their behalf.

7.2 Movement in allowance for ECL on doubtful receivables is as follows:

	Note	As of December 31, 2022	As of December 31, 2021
Balance at the beginning of the year		**(725,547)**	(5,098,092)
Charge for the year	17.2	**(450,133)**	(592,715)
Reversal of specific provision		**1,138,161**	-
Write-offs		**-**	4,965,260
Closing balance at the end of the year		**(37,519)**	(725,547)

(All amounts in Saudi Riyals unless otherwise stated)

8 Loans to employees - net

The Company has established employee loan programs that offer both personal and housing loans to eligible employees. The personal loans have varying maturities up to 24 months while housing loans are repayable by the employees over a period of up to 25 years.

	Note	As of December 31, 2022	As of December 31, 2021
Loans to employees - current portion		**3,366,487**	1,373,608
Loans to employees - non-current portion		**7,935,754**	15,902,523
	7.1 & 17.2.1	**11,302,241**	17,276,131

8.1 This balance is net of ECL allowance amounting to Saudi Riyals 36,125 (2021: Saudi Riyals 113,527). The reversal of ECL for the year amounts to Saudi Riyals 77,402 (2021: ECL charge of Saudi Riyals 3,737).

(All amounts in Saudi Riyals unless otherwise stated)

9 Property, equipment and intangible assets

2022	Leasehold improvements	Furniture and office equipment	Motor vehicles	Softwares	Capital work-in-progress	Total
Cost						
As at January 1	14,726,193	22,901,645	439,126	32,191,847	17,489,081	87,747,892
Additions during the year	-	313,960	-	6,775,277	3,088,269	10,177,506
Transfers from CWIP	-	-	-	3,705,057	(3,705,057)	-
Disposals	(730,546)	(162,192)	-	-	-	(892,738)
As at December 31	13,995,647	23,053,413	439,126	42,672,181	16,872,293	97,032,660
Accumulated depreciation / amortization and impairment						
As at January 1	14,327,708	17,829,709	145,628	27,669,170	-	59,972,215
Charge for the year (Note 15)	107,667	1,095,130	73,373	1,863,044	-	3,139,214
Disposals	(730,381)	(123,734)	-	-	-	(854,115)
Impairment provision - CWIP	-	-	-	-	1,656,524	1,656,524
As at December 31	13,704,994	18,801,105	219,001	29,532,214	1,656,524	63,913,838
Net book value						
At December 31	290,653	4,252,308	220,125	13,139,967	15,215,769	33,118,822

(All amounts in Saudi Riyals unless otherwise stated)

9 Property, equipment, and intangible assets (continued)

2021	**Leasehold improvements**	**Furniture and office equipment**	**Motor vehicles**	**Softwares**	**Capital work-in-progress**	**Total**
Cost						
As at January 1	14,617,563	19,667,138	553,360	29,931,195	15,751,004	80,520,260
Additions during the year	-	2,413,755	371,326	180,292	4,747,819	7,713,192
Transfers from CWIP	108,630	820,752	-	2,080,360	(3,009,742)	-
Disposals	-	-	(485,560)	-	-	(485,560)
As at December 31	14,726,193	22,901,645	439,126	32,191,847	17,489,081	87,747,892
Accumulated depreciation / amortization						
As at January 1	13,559,226	16,081,434	553,360	26,607,107	-	56,801,127
Charge for the year (note 14)	768,482	1,748,275	77,828	1,062,063	-	3,656,648
Disposals	-	-	(485,560)	-	-	(485,560)
As at December 31	14,327,708	17,829,709	145,628	27,669,170	-	59,972,215
Net book value						
At December 31	398,485	5,071,936	293,498	4,522,677	17,489,081	27,775,677

Capital work-in-progress ("CWIP") includes advances given to suppliers for purchase of property and equipment and construction of certain leasehold improvements.

Intangibles represent cost of various softwares used by the Company for the purpose of accounting and record keeping of the various revenue streams that encompass the Company's business activities.

(All amounts in Saudi Riyals unless otherwise stated)

10 Short-term borrowings

The Company has obtained overdraft facilities from the Bank in order to finance its lending book including margin / murabaha facilities extended to customers as follows:

As of December 31, 2022

S. No	Currency	Facility limit	Outstanding balance Saudi Riyals	Rate of commission
1	Saudi Riyals	3,343,750,000	**1,293,787,327**	Three-months average Benchmark rate + agreed spread
2	US Dollars	175,000,000	**138,351,549**	Three-months average Benchmark rate + agreed spread
			1,432,138,876	

As of December 31, 2021

			Saudi Riyals	
1	Saudi Riyals	3,343,750,000	1,395,900,638	Three-months average Benchmark rate + agreed spread
2	US Dollars	175,000,000	371,638,784	Three-months average Benchmark rate + agreed spread
			1,767,539,422	

As at December 31, 2022, the special commission expense payable is Saudi Riyals 7.847 million (2021: Saudi Riyals 1.298 million).

11 Accrued and other liabilities

	As of December 31, 2022	As of December 31, 2021
Accrued expenses	**125,245,200**	72,163,254
Accounts payable	**61,177,481**	187,040,302
Total	**186,422,681**	259,203,556

(All amounts in Saudi Riyals unless otherwise stated)

12 Zakat and income taxes

	As of December 31, 2022	As of December 31, 2021
Zakat	**29,041,600**	36,686,940
Income tax	**375,000**	375,000
Total	**29,416,600**	37,061,940

The Company maintains a provision of Saudi Riyals 29.42 million (2021: Saudi Riyals 37.06 million) for zakat and income tax as of December 31, 2022 which includes provision for the current period amounting to Saudi Riyals 29.829 million (2021: Saudi Riyals 36.086 million) and reversal from prior year amounting to Saudi Riyals 4.11 million (2021: charge of Saudi Riyals 3.49 million) recorded in current year. Zakat and income tax have been calculated in accordance with the Saudi Arabian Zakat and Income Tax Regulations and charged to the statement of income.

12.1 Movement in provision for zakat and income tax

The movement in the provision for zakat and income tax is as follows:

	As of December 31, 2022		
	Zakat	**Income tax**	**Total**
Balance at the beginning of the year	**36,686,940**	**375,000**	**37,061,940**
Provision - for current year*	**29,829,927**	**-**	**29,829,927**
(Reversal) / provision - for prior years	**(10,886,019)**	**6,772,970**	**(4,113,049)**
	18,943,908	**6,772,970**	**25,716,878**
Payments	**(26,589,248)**	**-**	**(26,589,248)**
Advance payment utilized	**-**	**(6,772,970)**	**(6,772,970)**
Balance at the end of the year	**29,041,600**	**375,000**	**29,416,600**

	As of December 31, 2021		
	Zakat	**Income tax**	**Total**
Balance at the beginning of the year	25,175,380	4,645,535	29,820,915
Provision - for current year	36,086,939	-	36,086,939
Provision - for prior years	1,619,862	1,877,384	3,497,246
	37,706,801	1,877,384	39,584,185
Payments	(25,327,847)	(2,461,183)	(27,789,030)
Advance payment utilized	(867,394)	(3,686,736)	(4,554,130)
Balance at the end of the year	36,686,940	375,000	37,061,940

* Beginning 2021, the Company does not accrue income tax due to the change in Saudi shareholding to 100%. Also see not 12.3.

12 Zakat and income taxes (continued)

12.2 Status of final assessments

The Company has filed its zakat and income tax declarations for the years from 2007 to 2021. ZATCA finalized the assessments for the years from 2007 to 2019. For the years from 2015 to 2017 ZATCA finalized the assessments with an additional zakat and income tax liability of Saudi Riyals 2.3 million. The Company has filed an appeal against these assessments with the Initial Committee and Appeal Committee for General secretariat of tax committees and it is pending for hearing.

With respect to CAAM Saudi Fransi (the "Merged Company"), the Company has received an assessment relating to returns filed for the period from 2007 to 2010 with an additional zakat and income tax liability of Saudi Riyals 3.6 million. The Company had filed an appeal against this assessment with the Initial Committee for General secretariat of tax committees which issued its decision by reducing additional zakat and income tax liability to Saudi Riyals 1.3 million. The Company has filed an appeal against this revised assessment with the Appeal Committee for General secretariat of tax committees which issued its decision in August 2021 by partial acceptance and the Company will notify ZATCA to act accordingly. The Bank has issued a bank guarantee on behalf of the Company in respect of the appealed amount of Saudi Riyals 1.3 million on behalf of the Company in favor of ZATCA.

12.3 Impact of changing shareholding percentage on zakat base

During the year 2019, the Bank submitted a request to ZATCA to update the shareholding percentage of the group to be 100% Saudi entity. In January 2022, ZATCA accepted the Bank's position as a Zakat payer only with an effective date starting January 2021.

Consequently, the Company has submitted a claim to ZATCA to refund advance tax payments made in 2021 amounting to Saudi Riyals 3.43 million.

The Company's zakat liabilities charged in these financial statements are an allocation of zakat liabilities of Banque Saudi Fransi Group. These liabilities are payable by the Company to the Bank who ultimately settles it with Zakat, Tax and Customs Authority (ZATCA).

13 Employees' benefit obligations

13.1 Employees' end of service benefits ("EOSBs") and ex-gratia benefits

Employees' end of service benefits ("EOSBs")

The Company operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Employees' end-of-service benefit plans are unfunded plans, and the benefit payment obligation are met when they fall due (i.e., upon termination of employment, resignation, or retirement).

Ex-gratia benefits

Ex-gratia benefits pertain to the other long-term benefits for those employees who reached retirement age. The normal retirement age is 58 for males and 53 for females. The Company allows late retirement up until 63 years.

(All amounts in Saudi Riyals unless otherwise stated)

13 Employees' benefit obligations (continued)

13.1 Employees' end of service benefits ("EOSBs") and ex-gratia benefits (continued)

The amounts recognized in the statement of financial position and the movements in the EOSB obligation over the year are as follows:

	For the year ended December 31, 2022		
	End of service benefits	**Ex-gratia benefits**	**Total**
Balance at the beginning of the year	**56,576,467**	**1,953,976**	**58,530,443**
Current service cost	**6,517,378**	**217,658**	**6,735,036**
Interest expense	**1,433,124**	**65,757**	**1,498,881**
Total amount recognized in statement of income	**7,950,502**	**283,415**	**8,233,917**
Remeasurements due to actuarial gain	**(8,703,954)**	**(26,256)**	**(8,730,210)**
Benefits paid	**(11,692,447)**	**-**	**(11,692,447)**
Balance at the end of the year	**44,130,568**	**2,211,135**	**46,341,703**

	For the year ended December 31, 2021		
	End of service benefits	**Ex-gratia benefits**	**Total**
Balance at the beginning of the year	41,745,001	1,536,478	43,281,479
Current service cost	6,183,766	232,799	6,416,565
Interest expense	1,273,024	41,992	1,315,016
Total amount recognized in statement of income	7,456,790	274,791	7,731,581
Remeasurements due to actuarial loss	11,872,817	214,707	12,087,524
Benefits paid	(4,498,141)	(72,000)	(4,570,141)
Balance at the end of the year	56,576,467	1,953,976	58,530,443

13.2 Long-term incentive plan

The Company operates a Long-Term Incentive Plan ("LTIP"). Until 2022, this scheme was available only to selected employees in any given eligible year. The benefit of each eligible year vested over the three years from the end of each respective eligible year. The "award rate" for each LTIP was 17% of the scheme salary at the end of the vesting period. The benefit was payable provided that SFC achieved a consecutive net income growth for all three financial years within the vesting period.

During the year ended 31 December 2022, the LTIP policy was updated by management. Under the new policy, the LTIP award is payable to the plan's participants at the end the vesting period, granted that they remain in service during that period. The award is vested annually 25%,25% and 50% and is subject to annual performance conditions, based on the Company's net income growth versus the market net income growth.

(All amounts in Saudi Riyals unless otherwise stated)

13 Employees' benefit obligations (continued)

As at 31 December 2022, the maturity of the LTIP provision is shown in the table below:

Long-term incentive plan:	**December 31, 2022**	**December 31, 2021**
Current	**10,455,449**	3,782,272
Non-current	**9,028,647**	3,136,916
Balance at the end of the year	**19,484,096**	6,919,188

As of December 31, 2022, the Company recognized re-measurement due to actuarial loss amounting to SAR 2,476,444 (December 31, 2021: SAR 8,533) on LTIP.

The amounts recognized in the statement of financial position and the movements in the LTIP over the year are as follows:

	Note	**December 31, 2022**	**December 31, 2021**
Opening balance		**6,919,188**	7,819,239
Charge / (reversal) for the year recognized in the statement of income		**16,434,525**	(908,584)
LTIP Payment made		**(6,346,061)**	-
Remeasurement loss due to actuarial valuation recognized in other comprehensive income	13.3	**2,476,444**	8,533
Closing balance		**19,484,096**	6,919,188

13.3 Re-measurement gain /(loss)

The total re-measurement gain / (loss) on employees' benefit obligation is presented in the table below:

Re-measurement gain / (losses) from:	**Note**	**December 31, 2022**	**December 31, 2021**
- Employees' end of service benefits	13.1	**8,730,210**	(12,087,524)
- Long-term incentive plan	13.2	**(2,476,444)**	(8,533)
Re-measurement gain / (loss) on employees' benefit obligations, net		**6,253,766**	(12,096,057)

13.4 Provision for employees' benefit obligations

The total provision for employees' benefit obligations are as follows:

	Note	**December 31, 2022**	**December 31, 2021**
Current:			
Long-term incentive plan	13.2	**10,455,449**	3,782,272
Non-current:			
- Employees' end of service benefits	13.1	**46,341,703**	58,530,443
- Long-term incentive plan	13.2	**9,028,647**	3,136,916
Total non-current employees' benefit obligations		**55,370,350**	61,667,359

(All amounts in Saudi Riyals unless otherwise stated)

13 Employees' benefit obligations (continued)

13.5 Key actuarial assumptions

	As at December 31, 2022	As at December 31, 2021
End of service benefits:		
Discount rate	**5.00%**	2.65%
Salary growth rate	**5.00%**	4.00%
Duration of liability (in years)	**10.79**	10.80
Ex-gratia benefits:		
Discount rate	**5.00%**	3.2%
Salary growth rate	**5.00%**	4%
Long-term incentive plan:		
Discount rate	**4.94%**	2.65%
Salary growth rate	**-**	4.00%
Plan duration (in years)	**3**	-

13.6 Sensitivity analysis for actuarial assumptions

December 31, 2022	Change in assumption		Impact on employees' benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
End of service benefits:				
Discount rate	+ 100 bp	- 100 bp	**(4,032,517)**	**4,649,854**
Salary growth rate	+ 100 bp	- 100 bp	**4,600,762**	**(4,066,460)**
Mortality	+ 20%	- 20%	**-**	**-**
Attrition rate	+ 20%	- 20%	**(434,375)**	**475,028**
Ex-gratia benefits:				
Discount rate	+ 100 bp	- 100 bp	**(245,520)**	**284,218**
Salary growth rate	+ 100 bp	- 100 bp	**-**	**-**
Mortality	+ 20%	- 20%	**-**	**-**
Attrition rate	+ 20%	- 20%	**(154,302)**	**177,969**
Long-term incentive plan:				
Discount rate	+ 100 bp	- 100 bp	-	-
Salary growth rate	+ 100 bp	- 100 bp	-	-
Withdrawal rate	+ 20%	- 20%	-	-
Mortality rate	+ 20%	- 20%	-	-

(All amounts in Saudi Riyals unless otherwise stated)

13 Employees' benefit obligations (continued)

13.6 Sensitivity analysis for actuarial assumptions (continued)

December 31, 2021	Change in assumption		Impact on employees' benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
End of service benefits:				
Discount rate	+ 100 bp	- 100 bp	(7,882,116)	1,933,834
Salary growth rate	+ 100 bp	- 100 bp	1,807,955	(7,867,633)
Mortality	+ 20%	- 20%	(3,331,666)	3,300,863
Attrition rate	+ 20%	- 20%	(4,558,065)	1,970,518
Ex-gratia benefits:				
Discount rate	+ 100 bp	- 100 bp	(216,223)	252,744
Salary growth rate	+ 100 bp	- 100 bp	248,064	(216,611)
Mortality	+ 20%	- 20%	(10,076)	10,126
Attrition rate	+ 20%	- 20%	(365,076)	452,054
Long-term incentive plan:				
Discount rate	+ 100 bp	- 100 bp	(19,551)	20,134
Salary growth rate	+ 100 bp	- 100 bp	30,182	(29,593)
Withdrawal rate	+ 20%	- 20%	(21,965)	22,144
Mortality rate	+ 20%	- 20%	(507)	507

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

13.7 Expected cash flows

As at December 31, 2022, the expected cash flows over the next years valued on an undiscounted basis are shown in the table below:

End of service benefits:	December 31, 2022	December 31, 2021
1 year	**2,270,333**	4,965,514
2 to 4 years	**10,926,279**	13,795,059
5 years and above	**173,716,593**	35,881,139
	186,913,205	54,641,712

Ex-gratia benefits:	December 31, 2022	December 31, 2021
1 year	**-**	95,457
2 to 4 years	**66,017**	52,458
5 years and above	**10,429,675**	877,122
	10,495,692	1,025,037

(All amounts in Saudi Riyals unless otherwise stated)

13 Employees' benefit obligations (continued)

13.7 Expected cash flows (continued)

Long-term incentive plan:	**December 31, 2022**	**December 31, 2021**
1 year	**10,455,449**	3,782,272
2 to 4 years	**9,028,647**	3,136,916
5 years and above	**-**	-
	19,484,096	6,919,188

14 Contingencies and commitments

As of December 31, 2022, the Company has outstanding commitments amounting to Saudi Riyals 22.2 million (2021: Saudi Riyals 32.3 million) on account of investments and payments for purchases of goods and services. As of December 31, 2022, the Company has approved margin / murabaha financing facility limits amounting to Saudi Riyals 2,927 million (2021: Saudi Riyals 3,012 million) to customers, out of which limits amounting to Saudi Riyals 1,425 million (2021: Saudi Riyals 1,767 million) are utilized as of December 31, 2022.

As of December 31, 2022, the Company is subject to a litigation in the normal course of its business. The Company believes that the outcome of the pending legal case will not have a material impact on the Company's financial statements.

15 Other general and administrative expenses

		Year ended 31 December	
	Notes	**2022**	**2021**
Information technology related expenses		**21,554,080**	21,182,777
Rentals and premises related expenses		**7,004,457**	7,032,740
Travel and entertainment expenses		**6,652,673**	6,119,636
Legal and professional fees		**5,222,909**	4,466,821
Other expenses		**4,404,379**	3,747,152
Depreciation and amortization	9	**3,139,214**	3,656,648
Remuneration of Board of Directors	16.1	**1,969,420**	1,794,745
Total		**49,947,132**	48,000,519

(All amounts in Saudi Riyals unless otherwise stated)

16 Related party matters

16.1 Related party transactions

In the ordinary course of its activities, the Company transacts business with related parties. In the opinion of the management and the Board of Directors, the related party transactions are carried out in the ordinary course of business.

Significant transactions with related parties in the ordinary course of business included in the financial statements are summarized below:

	Year ended 31 December	
	2022	**2021**
Banque Saudi Fransi (shareholder):		
Income:		
Custody fee earned	**360,000**	360,000
Income from investment banking services	**262,500**	-
Special commission income on deposits	**77,227,597**	40,150,726
Income from brokerage services	**735,425**	5,926,894
Income under Service Level Agreements ("SLA") - Note 16.1.1	**1,949,051**	1,923,099
Expenses:		
Expenses incurred under Service Level Agreements ("SLA") - Note 16.1.1	**11,311,282**	14,389,829
Commodity traders fees paid	**-**	119,208
Expenses incurred on behalf of the Company	**7,754,763**	7,653,152
Special commission expense on short-term borrowing	**58,979,406**	12,170,649
Allianz Saudi Fransi:		
Management fee	**168,108**	-
Contribution and fees paid on account of staff saving plan	**413,950**	-
Directors, other shareholders, and their affiliates:		
Income:		
Subscription and management fee earned	**1,259,522**	385,014
Special commission income on margin financing / murabaha facilities extended	**3,439,545**	1,440,815
Custody fee earned	**-**	200,000
Income from brokerage services	**5,372,180**	2,288,131
Expenses:		
Company's contribution paid to General Organization for Social Insurance (GOSI)	**5,422,654**	5,622,174
Board of Directors remuneration (Note 15)	**1,969,420**	1,794,745
Mutual funds:		
Management and subscription fees from mutual funds	**42,596,635**	34,529,181

(All amounts in Saudi Riyals unless otherwise stated)

16 Related party matters (continued)

16.1 Related party transactions (continued)

The total amount of salaries and employee related benefits of key management personnel are as follows:

	Year ended 31 December	
	2022	**2021**
Short-term benefit	**27,782,913**	26,220,558
Long-term benefit	**8,861,628**	3,330,000
Long-term incentive plan	**12,000,000**	-
Employees' EOSBs	**3,990,062**	3,423,090

16.1.1 The Company has entered into Service Level Agreements ("SLA") with the Bank for providing various services. Significant outsourced services include information technology, system security, premises, and certain other services.

16.2 Related party balances

Significant year-end balances arising from transactions with related parties are included in the statement of financial position under various financial statement line items and respective notes.

17 Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and cash flow and fair value commission rate risk), credit risk, liquidity risk and operational risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Financial instruments carried on the statement of financial position include cash and bank balances, investments held at FVOCI, investments held at FVSI, receivables against margin / murabaha financing, other receivables, loans to employees - net, short-term borrowings, accrued expenses, and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Risk management responsibilities are held as follows:

Business Unit Management: Primarily responsible for risk management. The process of assessing, evaluating, and measuring risk is ongoing and is integrated into the day-to-day activities of the business. This process includes implementing the Company's risk management framework, identifying issues, and taking remedial action where required. Business unit management is also accountable for reporting to the governance bodies within the Company.

Risk Function: Primarily accountable for risk management reporting, providing oversight and independent reporting to management and the Board.

Internal Audit Function: Provides an independent assessment of the adequacy and effectiveness of the overall risk management framework and risk governance structures, and reports to the Board through the Company's Audit Committee.

Compliance and AML Function: Responsible for monitoring and assessment of business compliance with CMA Prudential Rules, including Anti Money Laundering & Counter terrorist financing regulations.

17 Financial instruments and risk management (continued)

17.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices / commission rates.

a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and US Dollars. Transactions in other foreign currencies are not material. Since US Dollar is pegged to SAR, therefore, there is no foreign exchange risk.

b) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices (other than as a result of foreign currency and commission rate movements), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Exposure

The Company is exposed to price risk on the mutual funds investment, sukuks and equity shares held at FVOCI and equity securities held at FVSI as at December 31, 2022.

Sensitivity

The effect on the Company's equity investments held at FVOCI and FVSI due to reasonable possible changes in prices, will all other variables held constant is as follows

December 31, 2022	**Change in market price**	**Change in equity**
Mutual funds	+/- 10% change in market prices %	**+/- SAR 11,937,353**
Sukuk	+/- 10% change in market prices %	**+/- SAR 34,051,625**
Investments at FVSI	+/- 10% change in market prices %	**+/- SAR 448,499**

December 31, 2021	**Change in market price**	**Change in equity**
Mutual funds	+/- 10% change in market prices %	+/- SAR 10,517,770

c) Cash flow and fair value commission rate risk

Cash flow and fair value commission rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company's financial positions and cash flows.

Exposure

The Company's commission rate risks arise mainly from its bank balances, margin / murabaha financing, short-term borrowings and sukuk investments. The Company on a regular basis monitors changes in the commission rates and acts accordingly. The Company's receivables from margin financing include both fixed and floating commission rate instruments.

The Company's fixed rate receivables (all murabaha contracts and fixed rate margin financing contracts) are carried at amortized cost and therefore not subject to fair value commission rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of changes in market commission rates.

The Company's floating rate instruments are carried at amortized cost, therefore, these do not affect the fair value of instrument, but cash flows / income is affected.

(All amounts in Saudi Riyals unless otherwise stated)

17 Financial instruments and risk management (continued)

17.1 Market risk (continued)

Sensitivity

With 10% change in the underlying Benchmark rate with all the variables held constant, the income / cash flows for the year will increase / decrease as follows:

December 31, 2022	**Change in interest rate**	**Change in income / cash flows**
Bank balance	+/- 10% change in Benchmark rate	SAR 3,487,107 / (SAR 3,487,107)
Margin financing (floating rate)	+/- 10% change in Benchmark rate	SAR 3,333,435 / (SAR 6,482,404)
Short term borrowing	+/- 10% change in Benchmark rate	(SAR 5,806,351) / SAR 5,296,659

December 31, 2021	**Change in interest rate**	**Change in income / cash flows**
Bank balance	+/- 10% change in Benchmark rate	SAR 989,315 / (SAR 989,315)
Margin financing (floating rate)	+/- 10% change in Benchmark rate	SAR 647,948 / (SAR 1,557,816)
Short term borrowing	+/- 10% change in Benchmark rate	(SAR 902,383) / SAR 1,001,198

The Company is exposed to fair value commission rate risk on its fixed rate sukuk investment. With +/- 10% change in an interest rate, the fair value of the sukuk will change by SAR 888,035 (2021: SAR 367,256).

(All amounts in Saudi Riyals unless otherwise stated)

17 Financial instruments and risk management (continued)

17.1 Market risk (continued)

The table below summarizes the Company's exposure to commission rate risks. The amounts are classified on the earlier date of the contractual maturity or the repricing date.

Commission rate risk	**No maturity**	**Within 3 months**	**3-12 months**	**Over 1 year**	**Non commission bearing**	**Total**
December 31, 2022						
Assets						
Cash and bank balances	786,534,412	-	-	-	10,000	786,544,412
Investments at FVSI	-	-	-	-	4,484,988	4,484,988
Margin / murabaha financing	-	883,555,972	541,506,034	-	-	1,425,062,006
Investments held at fair value through other comprehensive income ("FVOCI") - Sukuk	-	-	-	346,374,232	-	346,374,232
Other receivables	-	-	-	-	352,017,168	352,017,168
Loans to employees - net		840,983	2,525,504	7,935,754	-	11,302,241
Total financial assets	786,534,412	884,396,955	544,031,538	354,309,986	356,512,156	2,925,785,047
Short-term borrowings	-	890,632,842	541,506,034	-	-	1,432,138,876
Accrued and other liabilities	-	-	-	-	184,684,502	184,684,502
Total financial liabilities	-	890,632,842	541,506,034	-	184,684,502	1,616,823,378
Net commission rate sensitivity gap	786,534,412	(6,235,887)	2,525,504	354,309,986	171,827,654	1,308,961,669

(All amounts in Saudi Riyals unless otherwise stated)

17 Financial instruments and risk management (continued)

17.1 Market risk (continued)

Commission rate risk	No maturity	Within 3 months	3-12 months	Over 1 year	Non commission bearing	Total
December 31, 2021						
Assets						
Cash and bank balances	1,289,063,836	-	-	-	10,000	1,289,073,836
Margin / murabaha financing	-	325,373,534	1,441,626,657	-	-	1,767,000,191
Investments held at fair value through other comprehensive income ("FVOCI")	-	-	-	92,851,498	-	92,851,498
Other receivables	-	-	-	-	53,136,802	53,136,802
Loans to employees - net	-	347,182	1,026,425	15,902,524	-	17,276,131
Total financial assets	1,289,063,836	325,720,716	1,442,653,082	108,754,022	53,146,802	3,219,338,458
Short-term borrowings	-	325,912,765	1,441,626,657	-	-	1,767,539,422
Accrued and other liabilities	-	-	-	-	258,089,189	258,089,189
Total financial liabilities	-	325,912,765	1,441,626,657	-	258,089,189	2,025,628,611
Net commission rate sensitivity gap	1,289,063,836	(192,049)	1,026,425	108,754,022	(204,942,387)	1,193,709,847

* The short-term borrowings are payable to the Bank (the "Parent Company') and are renewed annually.

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(All amounts in Saudi Riyals unless otherwise stated)

17 Financial instruments and risk management (continued)

17.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss.

Exposure

Cash and cash equivalents are deposited with the Bank, which has sound credit ratings and is a related party. The accrued income mainly relates to amounts due on account of asset management services and is settled within a short period. The receivables relate to margin / murabaha trading portfolios and have adequate coverage ratios. The portfolios are closely monitored, and any margin calls or liquidations are performed at predefined thresholds as and when needed to ensure that the Company's exposure is sufficiently collateralized. Sukuks are issued by the financial institutions with sound credit ratings. The maximum credit exposure equals the carrying amount of the sukuks, placements and other assets.

17.2.1 Credit quality analysis

The following table sets out the credit analysis for financial assets:

As at December 31, 2022	Investment grade	Non-investment grade	Unrated	Total
Financial assets				
Cash and bank balances	**786,534,412**	**-**	**10,000**	**786,544,412**
Margin/murabaha financing	**-**	**-**	**1,425,062,006**	**1,425,062,006**
Investments held at FVOCI - Sukuk	**346,374,232**	**-**	**-**	**346,374,232**
Other receivables	**-**	**-**	**356,540,297**	**356,540,297**
Loans to employees - net	**-**	**-**	**11,302,241**	**11,302,241**
Total	**1,132,908,644**	**-**	**1,792,914,544**	**2,925,823,188**

As at December 31, 2021	Investment grade	Non-investment grade	Unrated	Total
Financial assets				
Cash and bank balances	1,289,063,836	-	10,000	1,289,073,836
Margin/murabaha financing	-	-	1,767,000,191	1,767,000,191
Investments held at fair value through other comprehensive income ("FVOCI") - Sukuk	92,851,498	-	-	92,851,498
Other receivables	-	-	53,136,802	53,136,802
Loans to employees - net	-	-	17,276,131	17,276,131
Total	1,381,915,334	-	1,837,423,124	3,219,338,458

(All amounts in Saudi Riyals unless otherwise stated)

17 Financial instruments and risk management (continued)

17.2 Credit risk (continued)

17.2.1 Credit quality analysis (continued)

Loss allowance on loans to employees

	Note	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
		December 31, 2022			
Gross amount		**11,338,366**	**-**	**-**	**11,338,366**
Expected credit loss	8.1	**(36,125)**	**-**	**-**	**(36,125)**
		11,302,241	**-**	**-**	**11,302,241**

	Note	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
		December 31, 2021			
Gross amount		17,389,658	-	-	17,389,658
Expected credit loss	8.1	(113,527)	-	-	(113,527)
		17,276,131	-	-	17,276,131

At December 31, the credit risk exposure for receivable against margin / murabaha financing by geographic region is as follows:

	2022	2021
Saudi Arabia	**1,425,062,006**	1,767,000,191

At December 31, the credit risk exposure for receivables against margin lending by type of customer is as follows:

	2022	2021
Corporate customers	**225,417,835**	30,338,589
Retail customers	**1,199,644,171**	1,736,661,602
	1,425,062,006	1,767,000,191

The value of the collateral held against the receivables against margin lending as at 31 December 2022 is SAR 9.8 billion (2021: SAR 11.4 billion).

At December 31, the credit risk exposure for sukuk investment by geographic region is as follows:

	2022	2021
Saudi Arabia	**146,739,709**	92,851,498
Kuwait	**95,925,262**	-
United Arab Emirates	**53,829,630**	-
Qatar	**49,879,631**	-
	346,274,232	92,851,498

(All amounts in Saudi Riyals unless otherwise stated)

17 Financial instruments and risk management (continued)

17.2 Credit risk (continued)

17.2.1 Credit quality analysis (continued)

During the year, the following ECL charge / (reversal) were recognized in statement of income in relation to financial assets other than FVOCI debt investments:

	Note	2022	2021
ECL charge for other receivables	7.2	**(450,133)**	(592,715)
ECL charge for debt instruments		**(219,951)**	(91,225)
ECL reversal / (charge) for loans to employees	8.1	**77,402**	(3,737)
		(592,682)	(687,677)

17.3 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet any future commitments.

The Company's liquidity management process is as follows:

a. Day-to-day funding managed by Finance department to ensure that requirements can be met, and this includes replenishment of funds as they mature or are invested.
b. Monitoring balance sheet liquidity ratios against internal and regulatory requirements.
c. Managing the concentration and profile of debt maturities.
d. Liquidity management and asset and liability mismatching.

The following analyses the Company's financial liabilities into relevant maturity groupings based on the remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due equal their carrying balances, unless material, as the impact of discounting is immaterial.

2022	**Less than 1 year**	**Total**
Short-term borrowings	**1,432,138,876**	**1,432,138,876**
Accrued and other liabilities	**184,684,502**	**184,684,502**
	1,616,823,378	**1,616,823,378**
2021		
Short-term borrowings	1,767,539,422	1,767,539,422
Accrued and other liabilities	258,089,189	258,089,189
	2,025,628,611	2,025,628,611

For the presentation of liquidity gap between financial assets and financial liabilities for the year ended December 31, 2022 and 2021, please see Note 17.1.

17.4 Operational risk

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

Operational risk is a distinct risk category which the Company 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 in managing operational risk is to ensure control of the Group's resources by protecting the assets of the Company and minimizing the potential for financial loss.

17 Financial instruments and risk management (continued)

17.4 Operational risk (continued)

The Company's risk management approach involves identifying, assessing, managing, mitigating, monitoring, and measuring the risks associated with operations. The management of operational risk has a key objective of minimizing the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss.

18 Capital risk management

The objective of managing capital is to safeguard the Company's ability to continue as a going concern, so that it could continue to provide adequate returns to shareholder by pricing products and services commensurate with the level of risk. It is the policy of the Company to maintain adequate capital base so as to maintain investor, creditor, and market confidence and to support future development of the business. The Company's capital base sufficiently covers all material risks meeting the minimum capital requirement and the Company intends to maintain a healthy capital ratio to cater future business growth. The Company's objectives when managing capital are, to comply with the capital requirements set by the CMA to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base. As at December 31, 2022, the Company was in compliance with the externally imposed capital restrictions.

19 Fair value estimation

As at December 31, 2022 and 2021, the fair values of the Company's financial instruments are estimated to approximate their carrying values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS that are endorsed in the Kingdom of Saudi Arabia, including the level in the fair value hierarchy in which such valuations should be classified.

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

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

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

(All amounts in Saudi Riyals unless otherwise stated)

19 Fair value estimation (continued)

The table below presents the financial assets and financial liabilities at their fair values based on the fair value hierarchy.

		Fair value			
At December 31, 2022	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets not measured at fair value					
Cash and bank balances	786,544,412	-	-	786,544,412	786,544,412
Margin / murabaha financing	1,425,062,006	-	-	1,425,062,006	1,425,062,006
Other receivables	352,017,168	-	-	352,017,168	352,017,168
Loans to employees - net	11,302,241	-	-	11,302,241	11,302,241
Financial assets measured at fair value					
Investments held at FVOCI					
- Mutual Funds	119,373,535	-	-	119,373,535	119,373,535
- Sukuks	346,374,232	293,604,587	52,769,645	-	346,374,232
- Equities	75,025,000	-	-	75,025,000	75,025,000
	540,772,767	293,604,587	52,769,645	194,398,535	540,772,767
Investments held at FVSI	4,484,988	4,484,988	-	-	4,484,988
	3,120,183,582	298,089,575	52,769,645	2,769,324,362	3,120,183,582
Financial liabilities not measured at fair value					
Short-term borrowings	1,432,138,876	-	-	1,432,138,876	1,432,138,876
Accrued and other liabilities	184,684,502	-	-	184,684,502	184,684,502
	1,616,823,378	-	-	1,616,823,378	1,616,823,378

(All amounts in Saudi Riyals unless otherwise stated)

19 Fair value estimation (continued)

At December 31, 2021	Carrying value	Fair value Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value					
Cash and bank balances	1,289,073,836	-	-	1,289,073,836	1,289,073,836
Margin / murabaha financing	1,767,000,191	-	-	1,767,000,191	1,767,000,191
Other receivables	54,386,802	-	-	54,386,802	54,386,802
Loans to employees - net	17,276,131	-	-	17,276,131	17,276,131
Financial assets measured at fair value					
Investments held at FVOCI					
- Mutual Funds	105,177,698	-	-	105,177,698	105,177,698
- Sukuks	92,851,497	42,343,347	50,508,150	-	92,851,497
- Equities	25,000	-	-	25,000	25,000
	198,054,195	42,343,347	50,508,150	105,202,698	198,054,195
	3,325,791,155	42,343,347	50,508,150	3,232,939,658	3,325,791,155
Financial liabilities not measured at fair value					
Short-term borrowings	1,767,539,422	-	-	1,767,539,422	1,767,539,422
Accrued and other liabilities	258,089,189	-	-	258,089,189	258,089,189
	2,025,628,611	-	-	2,025,628,611	2,025,628,611

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. During the years ended December 31, 2022 and 2021, there were no transfers into or out of Level 3 fair value measurements.

The fair values of financial position financial instruments not measured at fair value are not significantly different from the carrying values included in the financial statements. The fair values of cash and bank balances, other receivables, loan to employees and accrued and other liabilities which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of financial instrument. An active market for these instruments is not available and the Company intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

Margin / murabaha financing classified as level 3 has been valued using expected cash flows discounted at Company's weighted average cost of capital.

Equity investments at FVOCI classified as level 3 are carried at cost as it approximates fair value. Mutual Fund investments have been revalued to fair value as at 31 December 2022.

Investments held at FVSI are classified in level 1 as they are quoted equities that are actively traded in market.

Sukuk investments classified in level 1 are quoted and actively traded in market while those in level 2 are not actively traded in market.

Short-term borrowings classified as level 3 has been valued based on the expected cashflows discounted using the market rate as at December 31, 2022.

(All amounts in Saudi Riyals unless otherwise stated)

20 Financial instruments by category

All financial assets and financial liabilities for the years ended December 31, 2022 and 2021, are classified under amortized cost category except for investment held at FVOCI, which is classified and measured at fair value.

	Measurement category	As at December 31, 2022	As at December 31, 2021
Financial assets			
Cash and bank balances	Amortized cost	**786,544,412**	1,289,073,836
Margin / murabaha financing	Amortized cost	**1,425,062,006**	1,767,000,191
Investments	Investments held at FVOCI	**540,772,767**	198,054,195
Investments	Investments held at FVSI	**4,484,988**	-
Other receivables	Amortized cost	**352,017,168**	54,386,802
Loans to employees - net	Amortized cost	**11,302,241**	17,276,131
Total financial assets		**3,120,183,582**	3,325,791,155
Financial liabilities			
Short-term borrowings	Amortized cost	**1,432,138,876**	1,767,539,422
Accrued and other liabilities	Amortized cost	**184,684,502**	258,089,189
Total financial liabilities		**1,616,823,378**	2,025,628,611

21 Assets held under fiduciary capacity

As of December 31, 2022, cash held under fiduciary capacity amounting to Saudi Riyals 8.3 billion (2021: Saudi Riyals 8.1 billion) was kept in a pool account with the Bank. These amounts were kept with the Company by its customers for the purpose of investment in the local, international equity markets and investment funds.

Further, as of December 31, 2022, shares amounting to Saudi Riyals 29 million (2021: Saudi Riyals 106 million) were kept by the Company on behalf of the customers under equity swap arrangements.

The mutual funds' assets related to the funds' unit holders managed by the Company amounted to Saudi Riyals 4.9 billion as of December 31, 2022 (2021: Saudi Riyals 5.2 billion).

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