NAYIFAT FINANCE COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
AND INDEPENDENT AUDITOR'S REPORT

NAYIFAT FINANCE COMPANY
(A Saudi Joint Stock Company)
Financial statements for the year ended December 31, 2021

Independent auditor's report to the shareholders of Nayifat Finance Company

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nayifat Finance Company (the "Company") as at 31 December 2021, 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' financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in 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 code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Key audit matter	• Expected credit loss allowance against Islamic Financing Receivables

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

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

Key audit matter

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

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance against Islamic Financing Receivables	
As at 31 December 2021, the gross Islamic Financing Receivables was SR 1.62 billion (2020: SR 1.56 billion) against which an expected credit loss ("ECL") allowance of SR 50.2 million (2020: SR 43.3 million) was maintained. The determination of ECL involves significant management judgement, and this has a material impact on the financial statements of the Company. Moreover, the COVID-19 pandemic has resulted in heightened uncertainty regarding the economic outlook in particular and hence has increased the level of judgement needed to determine the ECL. The key areas of judgement used by management include: 1- Categorisation of receivables into Stages 1, 2 and 3 based on the identification of: • exposures with a significant increase in credit risk ("SICR") since their origination; and • individually impaired / defaulted exposures.	We obtained and updated our understanding of management's assessment of ECL allowance against Islamic Financing Receivables, the relevant accounting policy and model methodology. We compared the Company's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9. We evaluated and tested the design and implementation of the operating effectiveness of key controls over: • the ECL model, including governance over the model, approval of key assumptions and post model adjustments, if any; • the classification of borrowers into various stages and timely identification of SICR and the determination of default / individually impaired exposures; and • the integrity of data inputs into the ECL model.

Key audit matter	How our audit addressed the key audit matter
2- Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure default ("EAD") including but not limited to assessment of the financial condition of counterparties, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities weightages. 3- The application of overlays, where appropriate, to model-driven ECL to reflect all relevant risk factors that might not be captured by the ECL model. We considered ECL as a key audit matter as in view of the judgments involved, particularly in light of the global pandemic, which has given rise to greater estimation uncertainty, and consequentially the associated audit risk around ECL calculations as of 31 December 2021. Refer to the summary of significant accounting policies in Note 3.14 for the impairment of financial assets; Note 4 which contains the disclosure of critical accounting judgments, estimates and assumptions relating to impairment losses on financial assets and the impairment allowance assessment methodology used by the Company; Note 6 which contains the disclosure of impairment against these receivables, credit quality analysis, key assumptions and factors considered in determination of ECL.	For a sample of customers, we assessed: • the appropriateness of staging as identified by management; and • the management's computation of ECL. We assessed the appropriateness of the Company's criteria for the determination of SICR and identification of "default" or 'individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the staging classification of the Company's Islamic Financing Receivables portfolio. We assessed the governance process implemented and the qualitative factors considered by the Company when applying any overlays or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise. We assessed the reasonableness of underlying assumptions used by the Company in the ECL model including forward looking assumptions keeping in view the uncertainty and volatility in economic scenarios due to the COVID-19 pandemic. We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2021. Where relevant, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing reasonableness of assumptions used in the ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights. We assessed the adequacy of disclosures in the financial statements.

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially

Independent auditor's report to the shareholders of Nayifat Finance Company (continued)

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

Responsibilities of management and those charged with governance for the 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.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Independent auditor's report to the shareholders of Nayifat Finance Company (continued)

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

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

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

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

PricewaterhouseCoopers

Omar M. Al Sagga
License Number 369

January 30, 2022

NAYIFAT FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	As at December 31, 2021	2020
Assets			
Cash and cash equivalents	5	59,123	70,092
Term and margin deposits	5	133,708	190,150
Islamic financing receivables	6	1,574,453	1,520,583
Equity Investments at fair value through OCI		893	893
Prepayments and other receivables	7	15,580	12,940
Investment property	8	18,661	18,211
Intangible asset	9	26,975	12,852
Property and equipment	10	38,154	43,680
Total assets		1,867,547	1,869,401
Liabilities and shareholders' equity			
Liabilities			
Accruals and other liabilities	11	33,027	34,707
Provision for zakat	13	25,970	23,811
Islamic bank financings and lease liabilities	12	593,327	664,806
Zakat payable	13	11,541	17,311
Provision of employees' end of service benefits	14	11,439	9,391
Total liabilities		675,304	750,026
Shareholders' equity			
Share capital	15	1,000,000	1,000,000
Statutory reserve	16	82,799	60,290
Retained earnings		109,444	59,085
Total shareholders' equity		1,192,243	1,119,375
Total liabilities and shareholders' equity		1,867,547	1,869,401

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

Chief Financial Officer

Managing Director
and
Chief Executive Officer

Chairman
Board of Directors

NAYIFAT FINANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	For the Year ended December 31, 2021	2020
Income			
Income from Islamic financing		390,855	414,470
Other income	21	1,467	2,439
Total operating income		392,322	416,909
Expenses			
Finance costs	18	(19,555)	(43,225)
Reversal of impairment - net	6.4	11,362	1,470
Salaries and employees related expenses	19	(87,188)	(98,451)
Other general and administrative expenses	20	(35,953)	(38,980)
Depreciation and amortization	9 &10	(10,400)	(11,962)
Total expenses		(141,734)	(191,148)
Net income for the year before zakat		250,588	225,761
Zakat			
Charge for the year	13	(25,500)	(24,296)
Net income for the year		225,088	201,465
Other comprehensive income		-	-
Total comprehensive income for the year		225,088	201,465
Basic and diluted earnings per share	22	2.25	2.04

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

Chief Financial Officer

Managing Director
and
Chief Executive Officer

Chairman
Board of Directors

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

	Notes	Share capital	Treasury shares	Statutory reserve	Retained earnings	Total
January 1, 2021		**1,000,000**	**-**	**60,290**	**59,085**	**1,119,375**
Net income for the year		**-**	**-**	**-**	**225,088**	**225,088**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**
Total comprehensive income		**-**	**-**	**-**	**225,088**	**225,088**
Transfer to statutory reserve	16	**-**	**-**	**22,509**	**(22,509)**	**-**
Dividends	23	**-**	**-**	**-**	**(152,220)**	**(152,220)**
December 31, 2021		**1,000,000**	**-**	**82,799**	**109,444**	**1,192,243**
January 1, 2020		1,000,000	(65,152)	40,143	41,426	1,016,417
Net income for the year		-	-	-	201,465	201,465
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	201,465	201,465
Transfer to statutory reserve	16	-	-	20,147	(20,147)	-
Shares transferred to existing shareholders	17	-	65,152	-	(65,152)	-
Dividends	17 & 23	-	-	-	(98,507)	(98,507)
December 31, 2020		1,000,000	-	60,290	59,085	1,119,375

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

Chief Financial Officer

Managing Director
and
Chief Executive Officer

Chairman
Board of Directors

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

	Notes	2021	2020
Cash flows from operating activities			
Net income for the year before zakat		**250,588**	225,761
Adjustments for non-cash items:			
Depreciation and amortization	9 &10	**10,400**	11,962
Provision of employees' end of service benefits	14	**3,068**	3,076
(Gain) / Loss on valuation of repossessed assets	20	**(450)**	2,458
Reversal of impairment – net	6.4	**(11,362)**	(1,470)
Finance costs	18	**19,555**	43,225
		271,799	285,012
Changes in operating assets and liabilities:			
Islamic financing receivables		**(42,508)**	208,981
Prepayments and other receivables		**(2,640)**	6,663
Accruals and other liabilities		**(1,680)**	(11,441)
Employees end of service benefits paid	14	**(1,020)**	(1,487)
Rentals paid		**(460)**	(1,527)
Zakat paid	13	**(29,111)**	(27,788)
Finance cost and other charges paid		**(26,342)**	(34,811)
Net cash generated from operating activities		**168,038**	423,602
Cash flows from investing activities			
Additions to property and equipment	10	**(3,186)**	(7,171)
Additions to intangible asset	9	**(18,772)**	(9,092)
Term and margin deposits	5.1	**56,442**	(75,466)
Net cash generated from / (used in) investing activities		**34,484**	(91,729)
Cash flows from financing activities			
Proceeds from bank financings	12	**356,490**	236,783
Repayment of bank financings	12	**(417,761)**	(452,653)
Dividends paid	17 & 23	**(152,220)**	(98,507)
Net cash used in financing activities		**(213,491)**	(314,377)
Net change in cash and cash equivalents		**(10,969)**	17,496
Cash and cash equivalents at the beginning of the year	5	**70,092**	52,596
Cash and cash equivalents at the end of the year	5	**59,123**	70,092

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

Chief Financial Officer

Managing Director
and
Chief Executive Officer

Chairman
Board of Directors

1. GENERAL INFORMATION

Nayifat Finance Company (the "Company") is a Joint Stock Company under Commercial Registration ("CR") Number 1010176451 issued in Riyadh on JumadThani 9, 1431H (corresponding to May 23, 2010). As per the SAMA ("Saudi Central Bank") license No. 5/AS/201312 renewed on dated 23 Dhu'l-Hijjah1439 (corresponding to September 3, 2018), expiring on 26 Safar 1445 (corresponding to September 12, 2023). The Company is authorized to provide lease finance, consumer finance, small and medium enterprise finance and credit cards finance in the Kingdom of Saudi Arabia.

During the month of November 2021 the Company's shares got listed on tadawul (Saudi exchange) which resulted in the change in the Company's status from closed joint stock company to joint stock company.

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

2. BASIS OF PREPARATION

The financial statements of the Company as at and for the year ended December 31, 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

The financial statements have been prepared on a historical cost basis, except as disclosed in the notes to these financial statements.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Consistent application of accounting policies

The Company has not early adopted any new standards, interpretation or amendments that have been issued but which are not yet effective. The accounting and risk management policies adopted in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2020.

3.2 New standards and interpretations not yet adopted

The new standards and amendments to existing standards and interpretations, which are effective for annual periods beginning on or after January 1, 2022 have not been applied in preparing these financial statements. None of these standards is expected to have a significant effect on the financial statements of the Company.

3.3 Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals ("SR"), which is the Company's functional and presentation currency.

3.4 Cash and cash equivalents

Cash and cash equivalents consist of cash balances and short-term bank deposits with original maturities of three months or less, which are available to the Company without any restrictions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Margin and term deposits

Margin deposits are held with banks against borrowing facilities obtained and the tenor of such deposits is as per the maturity of the facility ranging up.

Term deposits include placements with banks and other short-term liquid investments with original maturities of more than three months and upto three years from the purchase date.

3.6 Islamic financing receivables (IFR)

IFR comprising of Tawarruq originated by the Company, are initially recognized at fair value including transaction costs when cash is advanced to customers. Subsequently, these financial assets are measured at amortized cost. For presentation purposes, the unearned finance income and provision for impairment are deducted from the gross receivables.

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

Murabaha
A contract whereby the Company sells to customers a commodity or an asset, which the Company has purchased and acquired, based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

3.7 Repossessed assets – real estate

The Company, in the ordinary course of business, acquires real estate or other assets against settlement of finances due. These properties are held for capital appreciation, long-term rental yields or both.

These assets are initially recognised at fair value. Subsequent to initial recognition, these are carried at cost less accumulated depreciation and accumulated impairment losses, if any.

Any rental income is charged to statement of comprehensive income.

3.8 Intangible assets

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

Amortization
Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Intangible assets are amortized on a straight-line basis in the statement of comprehensive income over its estimated useful life which ranges from 3 to 7 years, from the date on which it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.9 Property and equipment

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Property and equipment (continued)

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

Depreciation
Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives were as follows:

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

3.10 Provisions

Provisions are recognized when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

3.11 Impairment of non-financial assets

Non-financial assets, subsequent to depreciation and amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

3.12 End of service benefits

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

The calculation of obligation is performed using the projected unit credit method to make a reliable estimate of the ultimate cost to the Company of the benefit payable to employees. Actuarial gains or losses on re-measurement of obligation are recognized immediately in the statement of other comprehensive income. Actuarial gains and losses represent changes in the present value of the obligation resulting from experience adjustments and the effects of changes in actuarial assumptions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Revenue recognition

Income from Islamic financing receivables is recognized in the statement of comprehensive income using the effective yield method, using the applicable effective profit rate ("EPR"), on the outstanding balance over the term of the contract.
The calculation of the EPR includes transaction costs, fees and commission income received that are an integral part of the EPR. Transaction costs include incremental costs that are directly attributable to the acquisition of the financial asset.

Other income is recognized on accrual basis as the services are rendered.

3.14 Financial Instruments

a) Initial recognition

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

b) Classification

The Company classifies its financial assets in the following measurement categories:
- those to be measured subsequently at fair value (either through other comprehensive income, or through statement of comprehensive income (SOCI)), and
- those to be measured at amortized cost.

<u>Debt instruments</u>
Debt instruments are those instruments that meet the definition of a financial liability form 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.

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 related financial asset is classified and measured at FVSI.

Based on these factors, the Company classifies its debt instruments into one of the two measurement categories as described in (c) below.

<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.
Classification and subsequent measurement of Company's equity instruments is described in (c) below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Financial Instruments (continued)

c) Measurement

At initial recognition, the Company measures financial assets at its fair value plus, in the case of a financial asset not at fair value through SOCI, transaction costs that are directly attributable to the acquisition of financial asset. Transaction costs of financial assets carried at (FVSI) are expensed in SOCI.

Subsequent measurement of debt instrument
It depends on the Company's business model for managing the assets and the cash flow characteristics of the assets. The Company classifies its debt instruments into three measurement categories:

i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and profit are measured at amortized cost. A gain or loss on a debt instrument that is subsequently measured at amortized cost and is not part of the hedging relationship is recognized in SOCI when the asset is derecognized or impaired. Profit from these financial assets is calculated based on the effective yield method. Accordingly, net investment in leases and Islamic financing receivables has been classified as financial assets under amortized cost.

ii) Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit, 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, profit on financial instruments (revenue) and foreign exchange gains and losses which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to SOCI and recognized in other gains/(losses). Profit from these financial assets is included in finance income using the effective yield method.

iii) Fair value through statement of income (FVSI): Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through SOCI. A gain or loss on a debt investment that is subsequently measured at fair value through SOCI and is not part of a hedging relationship is recognized in SOCI and presented net in the SOCI statement within other gains/(losses) in the year in which it arises. Profit from these financial assets is included in the finance income.

Subsequent measurement of equity instruments
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 recognised in other comprehensive income and are not subsequently reclassified to the statement of profit or loss, including on disposal. 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 recognised in the statement of income when the Company's right to receive payments is established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Financial Instruments (continued)

d) Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost. The measurement of expected credit losses 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.

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.
Staging criteria:

The financial assets of the Company have the following staging criteria:

1- Performing (Stage 1): these represent the financial assets where customers have a low risk of default and a strong capacity to meet contractual cash flows.
The Company's Islamic finance receivables primarily represent retail and consumer loans and therefore management believes that past due information is the most appropriate basis for assessing the increase in credit risk and based on management experience and analysis, the balances which are less than 60 days past due do not result in significant increase in credit risk and are considered as performing.
The Company measures the loss allowance for performing financial assets at an amount equal to 12-month expected credit losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime. 12-month expected credit losses are the portion of expected credit losses that results from default events on the financial assets that are possible within 12 months after the reporting date.

2- Underperforming (Stage 2): these represent the financial assets where there is a significant increase in credit risk and that is presumed if the customer is more than 60 days past due in making a contractual payment/installment.
The Company measures the loss allowance for underperforming financial assets at an amount equal to lifetime expected credit losses.

3- Non-performing (Stage 3): these represent defaulted financial assets. A default on a financial asset is considered when the customer fails to make a contractual payment/installment within 90 days after they fall due.

The Company measures the loss allowance for non-performing financial assets at an amount equal to lifetime expected credit losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Financial Instruments (continued)

d) Impairment of financial assets (continued)

Write-off
Financial assets are written-off, when the Company has concluded that there is no reasonable expectation of recovery. Where financial assets are written off, the Company continues to engage enforcement activities to attempt to recover the receivable due. Where recoveries are made, after write-off, they are presented as part of provision for impairment-net are recognized in the statement of comprehensive income/loss.

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).

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant change in credit risk on an ongoing basis throughout each reporting period. The impairment model was developed considering probability of default and loss given default which were derived from historical data of the Company and are adjusted to reflect the expected future outcome which includes macroeconomic factors such as inflation and gross domestic product growth rate. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.
For financial assets, a credit loss is calculated as the present value (at effective profit rate) of the difference between:

(a) The contractual cash flows that are due to the Company under the contract; and
(b) The cash flows that the Company expects to receive.

For credit cards, which includes both a loan and an undrawn commitment component, the Company measures expected credit losses over the period that the Company is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

e) De-recognition of financial assets

A financial asset is derecognized, when the contractual rights to 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.

f) Financial liabilities - classification, measurement and de recognition

Financial liabilities are classified and subsequently measured at amortized cost using the effective yield method. The related cost of borrowing is charged to statement of comprehensive income. The effective yield rate is the rate that discounts the estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.
The Company derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Financial Instruments (continued)

g) Modifications of financial assets and financial liabilities

a- Financial assets

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

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in statement of comprehensive income.

b- Financial liabilities

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

h) Derivative financial instruments and hedge accounting

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Segments

The Company's operations are in the Kingdom of Saudi Arabia and currently provides tawarruq personal financing to retail and financing to Small and Medium enterprises (SME) customers and credit cards to retail customers. Accordingly, the Company's operations represent tawarruq personal financing to Retail, credit cards to retail and SME financing under product tawarruq. Thus, respective portfolio balances as a percentage of total IFR portfolio has been used for allocation of common expenses among segments.

3.16 Treasury shares

Own equity instruments that are re-acquired (Treasury shares) are recognised at cost and presented as a deduction from equity and are adjusted for any transaction cost, dividends and gains or losses on sale of such shares. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in Retained earnings.

3.17 Leases

Leases are recognised as a right-of-use asset and a corresponding liability, at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities
Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Generally, the Company uses the incremental borrowing rate as the discount rate.
Lease payments included in the measurement of lease liabilities comprise the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Subsequently, the lease liabilities are measure at amortised cost using the effective interest rate method. They are re-measured when there is a change in future lease payments arising from a change in rate, or if Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liabilities are re-measured in this way, a corresponding comprehensive income adjustment is made to the carrying amount of the right-of-use asset, or is recorded in statement of comprehensive income if the carrying amount of right-of-use asset reduced to zero.

Right-of-use assets
Right-of-use assets are initially measured at cost, comprising the following:
- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Refundable security deposits are not included in the initial measurement of a right-of-use asset. However, the difference between the nominal amount of the refundable security deposits and its fair value at the commencement of the lease represent, an additional lease payment which is prepaid and accordingly added to the initial carrying amount of the right-of-use asset and released to the statement of comprehensive income over the lease term as part of the depreciation of those assets.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Leases (continued)

Right-of-use assets (continued)

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In addition, the right-to-use assets is periodically reduced by impairment losses, if any, and adjusted for certain re-measurement of lease liabilities.

Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Short-term and low value leases

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office equipment and furniture.

3.18 Zakat

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements in conformity with IFRSs' requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected. The only significant area where management has used estimates, assumptions or exercised judgements is Provision for financial assets (Note 3.14, Note 6 and note 26).

5. CASH AND CASH EQUIVALENTS

	As at December 31,	
Cash and cash equivalents	**2021**	**2020**
Cash in hand	-	10
Cash at banks	**59,123**	70,082
Cash and cash equivalents	**59,123**	70,092
Term and margin deposits		
Margin deposits held with banks	**28,538**	35,587
Term deposits – Note 5.1	**105,170**	154,563
	133,708	190,150
	192,831	260,242

5.1 This includes SR 70 million (2020: SR 120 million) held with a local bank as commission bearing deposits at prevailing market rates. The remaining balance is held with the related party (refer Note 23.3).

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

6. ISLAMIC FINANCING RECEIVABLES

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

The breakup of Islamic financing receivables, is as follows:

	As at December 31,	
	2021	**2020**
Tawarruq financing -Retail	**1,357,124**	1,442,821
Tawarruq financing -SME	**194,156**	69,179
Islamic credit cards	**23,173**	8,583
	1,574,453	1,520,583
Current	**503,409**	447,018
Non-current	**1,071,044**	1,073,565
	1,574,453	1,520,583

6.1 Reconciliation between gross to net receivables:

December 31, 2021
Tawarruq

	Retail (Personal Financing)	SME	Retail (Credit cards)	Total
Gross receivables	**2,115,170**	**272,009**	**24,655**	**2,411,834**
Unearned finance income	**(709,320)**	**(77,853)**	**-**	**(787,173)**
	1,405,850	**194,156**	**24,655**	**1,624,661**
Allowance for expected credit losses	**(48,726)**	***-**	**(1,482)**	**(50,208)**
	1,357,124	**194,156**	**23,173**	**1,574,453**

**Further for SME contracts the collateral value was higher than the amount financed after applying the haircuts due to which no provisioning has been recorded..*

December 31, 2020
Tawarruq

	Retail (Personal Financing)	SME	Retail (Credit cards)	Total
Gross receivables	2,228,140	100,507	8,866	2,337,513
Unearned finance income	(742,265)	(31,328)	-	(773,593)
	1,485,875	69,179	8,866	1,563,920
Allowance for expected credit losses	(43,054)	-	(283)	(43,337)
	1,442,821	69,179	8,583	1,520,583

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

6. ISLAMIC FINANCING RECEIVABLES (continued)

6.2 Stage wise analysis of Islamic financing receivables is as follows:

December 31, 2021 *Tawarruq*	**Retail (Personal Financing)**	**SME**	**Retail (credit cards)**	**Total**
Performing	**1,224,335**	**148,801**	**18,302**	**1,391,438**
Under-performing	**29,902**	**-**	**1,319**	**31,221**
Non-Performing	**151,613**	**45,355**	**5,034**	**202,002**
	1,405,850	**194,156**	**24,655**	**1,624,661**
Allowance for expected credit losses	**(48,726)**	**-**	**(1,482)**	**(50,208)**
Net receivables	**1,357,124**	**194,156**	**23,173**	**1,574,453**

December 31, 2020 *Tawarruq*	**Retail (Personal Financing)**	**SME**	**Retail (credit cards)**	**Total**
Performing	1,330,660	69,179	7,686	1,407,525
Under-performing	25,170	-	403	25,573
Non-Performing	130,045	-	777	130,822
	1,485,875	69,179	8,866	1,563,920
Allowance for expected credit losses	(43,054)	-	(283)	(43,337)
Net receivables	1,442,821	69,179	8,583	1,520,583

6.3 The movement in allowance for expected credit losses of Islamic Financing receivables is as follows:

	Performing (Stage 1)	**Under-performing** (Stage 2)	**Non-performing** (Stage 3)	**Total**
Loss allowance as at January 1, 2021	**4,607**	**242**	**38,488**	**43,337**
Transfer from performing	**(212)**	**212**	**-**	**-**
Transfer from under-performing	**41**	**(267)**	**226**	**-**
Transfer from non-performing	**582**	**63**	**(645)**	**-**
Financial assets – settled	**(1,412)**	**(48)**	**(11,197)**	**(12,657)**
Financial assets originated	**(468)**	**(25)**	**(4,579)**	**(5,072)**
Changes to model assumptions	**-**	**-**	**-**	**-**
Changes to methodologies	**-**	**-**	**-**	**-**
Modification of contractual cashflows of financial assets	**-**	**-**	**-**	**-**
Changes in PDs/LGDs/EADs	**(1,847)**	**(112)**	**45,529**	**43,570**
	(3,316)	**(177)**	**29,334**	**25,841**
Write-off during the year	**-**	**-**	**(18,970)**	**(18,970)**
Loss allowance as at December 31, 2021	**1,291**	**65**	**48,852**	**50,208**

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

6. ISLAMIC FINANCING RECEIVABLES (continued)

6.3 The movement in allowance for expected credit losses of Islamic Financing receivables is as follows: (continued)

	Performing (Stage 1)	Under-performing (Stage 2)	Non-performing (Stage 3)	Total
Loss allowance as at January 1, 2020	3,795	291	25,319	29,405
Transfer from performing	(816)	816	-	-
Transfer from under-performing	33	(837)	804	-
Transfer from non-performing	198	39	(237)	-
Financial assets – settled	(1,336)	(182)	(5,641)	(7,159)
Financial assets originated	1,779	-	-	1,779
Changes to model assumptions (note 6.8)	373	18	3524	3,915
Changes to methodologies	-	-	-	-
Modification of contractual cashflows of financial assets	-	-	-	-
Changes in PDs/LGDs/EADs	581	97	34,879	35,557
	812	(49)	33,329	34,092
Write-off during the year	-	-	(20,160)	(20,160)
Loss allowance as at December 31, 2020	4,607	242	38,488	43,337

6.4 Reversal of impairment- net

	As at December 31, 2021	2020
Provision for impairment charge for year	**25,841**	34,092
Recoveries after written-off – note 6.3.1	**(37,203)**	(35,562)
Net	**(11,362)**	(1,470)

6.4.1 This includes recoveries from written-off balances in the previous years.

Considering the recoveries from previously written off balances, write-off to the extent of 60% from outstanding balance which was past due for more than 2 years of respective contracts was recorded during the year ended December 31, 2021.

6.5 Assignment of Islamic financing receivables

The Company assigned Islamic financing receivables amounting to SR 0.6 billion (December 31, 2020: SR 0.7 billion) to local commercial banks for obtaining Islamic bank financing. The carrying amount of associated Islamic bank financing amounts to SR 0.6 billion (December 31, 2020: SR 0.7 billion). These Islamic financing receivables have not been derecognized from the statement of financial position as the Company retains substantially all the risks and rewards, primarily credit risk. The Company is liable to the repayments of their assigned receivables to local commercial banks in case of customers' default. The amount received on assignment of Islamic financing receivables has been recognized as Islamic bank financing in the statement of financial position. Pursuant to the terms of the transfer agreement the Company is not allowed to repledge those receivable and the financial institution has recourse only to the receivables in the event the Company defaults its obligation. The carrying value of these receivables and the liability is approximate to their fair value

6.6 Amounts written off still subject to enforcement activity

As of December 31, 2021, the receivables amount written off still subject to enforcement activity are amount to SR 108 million (2020: SR 90.2 million).

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

6. ISLAMIC FINANCING RECEIVABLES (continued)

6.7 Reconciliation of gross receivables:

The movement in Gross receivables for personal financing and SME is as follows

	Performing (Stage 1)	Under-performing (Stage 2)	Non-performing (Stage 3)	Total
Gross receivables as at January 1, 2021	1,399,839	25,170	130,045	1,555,054
Transfer from performing	(103,976)	103,976	-	-
Transfer from under-performing	6,254	(101,691)	95,437	-
Transfer from non-performing	7,351	662	(8,013)	-
Net other movements*	63,488	1,965	(1,750)	63,703
	(26,883)	4,912	85,674	63,703
Write-off during the year	-	-	(18,751)	(18,751)
Loss allowance as at December 31, 2021	1,372,956	30,082	196,968	1,600,006

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

6.8 Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Company has used GDP growth rate and inflation as their key macroeconomic factors giving equal weightages to each. The macro-economic factors has been updated based on the latest available information (for GDP forecast as issued by ministry of finance budget statement fiscal year 2022 and for inflation growth rate available on SAMA database).

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

Sensitivity analysis:

The increase or decrease of 10% change in macro-economic factors will result SR 3.3 million increase or SR 1.8 million decrease in the ECL provision.

The increase or decrease of 10% change in loss rates (PDs and LGDs) assuming macro-economic factor remains the same will result SR 6.2 million increase or SR 4.2 million decrease in the ECL provision.

7. PREPAYMENTS AND OTHER RECEIVABLES

	As at December 31, 2021	2020
Advances and prepayments	14,003	8,711
Other receivables	1,577	4,229
	15,580	12,940

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

8. INVESTMENT PROPERTY (Repossessed assets – real estate):

	Note	As at December 31, 2021	2020
Repossessed assets – real estate	20	**18,661**	18,211

This represents 7 properties (December 31, 2020: 7 properties) in the Kingdom of Saudi Arabia which were repossessed by the Company against settlement of Islamic finance receivables. These properties will be sold when the Company will get the appropriate price possibly during the next two to three years. The cumulative fair value (level 3 hierarchy) of the same on December 31, 2021 is SR 30.4million (December 31, 2020: SR 25.4 million). As the residual value is expected to be higher than the carrying amount of these assets no depreciation is being charged.

Further, during 2020 five of the property's fair value was less than the carrying amount and accordingly the impairment provision of SR 2.4 million was recognised in the statement of comprehensive income. During 2021, since the fair valuation of these properties were improved, the Company recovered a reversal of SR 0.4 million.

9. INTANGIBLE ASSET

	As at December 31, 2021	2020
Cost:		
January 1,	**23,018**	13,926
Additions during the year	**18,772**	9,092
December 31,	**41,790**	23,018
Accumulated amortization:		
January 1,	**(10,166)**	(5,918)
Charge during the year	**(4,649)**	(4,248)
December 31,	**(14,815)**	(10,166)
Net book amount	**26,975**	12,852

10. PROPERTY AND EQUIPMENT

2021	Freehold land	Building and freehold improvements ** Note 10.1*	Leasehold improvements	Furniture and office equipment	Total
Cost					
January 1	27,963	16,079	9,448	16,817	70,307
Additions during the year	-	23	834	2,329	3,186
Adjustment on lease modification	-	(8,969)	-	-	(8,969)
December 31	27,963	7,133	10,282	19,146	64,524
Accumulated depreciation					
January 1	-	9,886	7,411	9,330	26,627
Charge for the period	-	1,400	699	3,652	5,751
Adjustment on lease modification	-	(6,008)	-	-	(6,008)
December 31	-	5,278	8,110	12,982	26,370
Net book amount	27,963	1,855	2,172	6,164	38,154

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

10. PROPERTY AND EQUIPMENT (continued)

2020	Freehold land	Building and freehold improvements ** Note 10.1*	Leasehold improvements	Furniture and office equipment	Total
Cost					
January 1	27,963	16,076	8,160	10,937	63,136
Additions during the year	-	3	1,288	5,880	7,171
December 31	27,963	16,079	9,448	16,817	70,307
Accumulated depreciation					
January 1	-	6,225	6,436	6,252	18,913
Charge for the period	-	3,661	975	3,078	7,714
December 31	-	9,886	7,411	9,330	26,627
Net book amount	27,963	6,193	2,037	7,487	43,680

10.1 The movement in right of use assets (Buildings) is as follows:

	Note	As at December 31, 2021	2020
Opening / adoption of IFRS 16		**4,366**	6,890
Additions during the year		**-**	-
Adjustment on lease modification		**(2,961)**	
Depreciation charge for the year		**(222)**	(2,524)
Closing		**1,183**	4,366

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

	Note	As at December 31, 2021	2020
Depreciation charge of right of use assets	10.1	**222**	2,524
Profit expense for leases	18	**30**	194
Expense relating to short term leases	20	**4,827**	1,348

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

11 ACCRUALS AND OTHER LIABILITIES

	Note	As at December 31, 2021	2020
Accrued expenses		**7,186**	4,391
Accrued employees' costs		**6,787**	4,918
Accrued key management bonus and board remuneration		**6,582**	13,303
Payable to suppliers		**5,982**	126
Unrealized loss on fair valuation of derivatives		**-**	54
Other	11.1	**6,490**	11,915
		33,027	34,707

11.1 This includes collections which are not adjusted against customer accounts amounting to SR 5.3 million (2020: SR 11.4 million).

12 ISLAMIC BANK FINANCINGS AND LEASE LIABILITIES

	Note	As at December 31, 2021	2020
Islamic bank financings	12.1	**592,316**	661,354
Lease liabilities	12.3	**1,011**	3,452
		593,327	664,806

12.1 The breakup of Islamic bank financing is as follows:

Current	**225,296**	295,526
Non-current	**367,020**	365,828
	592,316	661,354

The Company has long-term financing facilities with banks to finance current and long-term funding needs, primarily to finance Islamic finance receivables, amounting to SR 1.9 billion (2020: SR 2.2 billion) of which SR 0.6 billion was utilized as of December 31, 2021 (December 31, 2020: SR 0.6 billion). These financing facilities are repayable in three to four years in monthly, quarterly or six monthly instalments. The future finance costs charge on the existing utilized facilities amounts to SR 40 million (2020: SR 61 million) on prevailing profit rates.

The financing bears commission charges at prevailing market rates. The Company does not apply hedge accounting, as such through economic hedges the Company fixed the profit rates through derivatives, i.e. profit rate swap agreement with the banks for notional amount of SR nil (2020: SR 9 million). The settlement dates are in line with the respective financing repayments.

The Company is required to maintain margin deposits (as disclosed in Note 5). The cash cannot be withdrawn or used by the company for liquidity purposes whilst the borrowing is outstanding, the same amount can be off-set against the borrowings in the event of default, though there is no intention of net-settlement on part of the Company.

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

12 ISLAMIC BANK FINANCINGS AND LEASE LIABILITIES (continued)

12.2 The movement schedule of Islamic bank financing is as follows:

	As at December 31,	
	2021	**2020**
Payable as at January 1,	**661,354**	868,616
Additions to bank financing during the year	**347,494**	275,461
Payments during the year	**(416,532)**	(482,723)
Payable as at December 31,	**592,316**	661,354

12.3 The breakup of lease liabilities is as follows;

	As at December 31,	
	2021	**2020**
Current	**423**	1,828
Non-current	**588**	1,624
	1,011	3,452

12.4 The table below shows the reconciliation of future lease payments discounted using the incremental borrowing rate with the lease liabilities related to right-of-use assets.

	As at December 31,	
	2021	**2020**
Future lease payments	**1065**	3,621
Discounting impact at incremental borrowing rate	**(54)**	(169)
	1,011	3,452

12.5 The total cash outflow for leases during the year was SR 0.4 million (2020: SR 1.7 million).

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

13 PROVISION FOR ZAKAT AND ZAKAT PAYABLE

13.1 Movement in provision for zakat for the year is as follows:

	As at December 31,	
	2021	**2020**
January 1,	**23,811**	21,532
Charge for the year	**25,500**	24,296
Payments during the year	**(23,341)**	(22,017)
Balance at end of year	**25,970**	23,811

13.2 Movement in zakat payable for the year is as follows (note 13.3 b):

	As at December 31,	
	2021	**2020**
January 1,	**17,311**	23,082
Transfer from provision for zakat	**-**	-
Payments during the year	**(5,770)**	(5,771)
Balance at end of year	**11,541**	17,311

a. Status of zakat assessments:

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

b) The final assessments of zakat liability for the years 2014-2017 was received and the settlement as per terms of settlement is being paid as per agreed schedule. The balance amount payable as per settlement terms is kept aside as zakat payable amounting to SR 11.5 million. The Maturity of zakat payable has been disclosed in note 26 (ii) Liquidity risk note.

c) The zakat liability of 2018,2019 and 2020 has been fully settled with no assessment received from ZATCA to date.

d) The zakat return for 2021 will be filed in due course.

14 PROVISION OF EMPLOYEES' END OF SERVICE BENEFITS (EOSB)

	As at December 31,	
	2021	**2020**
January 1,	**9,391**	7,802
Charge for the year:		
Current service cost	**2,264**	2,185
Unwinding of discount	**222**	331
Re-measurements due to actuarial loss	**582**	560
	3,068	3,076
Payments made during the year	**(1,020)**	(1,487)
December 31,	**11,439**	9,391

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

14 PROVISION OF EMPLOYEES' END OF SERVICE BENEFITS (EOSB) (continued)

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

	2021	**2020**
Discount rate	**2.30%**	2.35%
Salary increment	**3.00%**	2.00%

14.2 Sensitivity of the actuarial assumptions

A change of 1% in discount rate and salary increment would have increased or decreased the provision for employee termination benefits by SR 1.2 million (2020: SR 1 million) and SR 1.4 million (2020: SR 1.1 million) respectively.

15 SHARE CAPITAL

As at December 31, 2021, the authorised, issued and fully paid-up share capital of the Company was SR 1,000 million divided into 100 million shares (December 31, 2020: SR 1,000 million divided into 100 million shares) with a nominal value of SR 10 each.

16 STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia, the Company is required to set aside a statutory reserve, after absorption of accumulated losses, if any, by the appropriation of at least 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for distribution. Such transfer is made to the statutory reserve account on annual basis at year-end.

17 TREASURY SHARES AND DIVIDEND

During the year 2019 the Company bought 2,505,827 of its own shares having a par value of SR 10 at SR 26 per share from one of the shareholders amounting to SR 65.1 million and has been reported as Treasury Shares under equity. During 2020 the treasury shares were allocated to all the existing shareholders in their existing proportion.

During the year, the Company has paid dividends amounting to SR 1.5 per share after obtaining Board (in line with By-Laws of the Company) and SAMA approval.

18 FINANCE COSTS

	For the year ended December 31,	
	2021	**2020**
Finance costs on Islamic bank financing – Note 12.1	**15,356**	40,023
Finance cost on lease liabilities	**30**	194
Gain on fair valuation of derivatives – Note 12	**(54)**	(857)
Bank charges	**4,223**	3,865
	19,555	43,225

19 SALARIES AND EMPLOYEES RELATED EXPENSES

	For the year ended December 31,	
	2021	**2020**
Salaries and employee related costs	**69,306**	63,101
Management fees and bonus – Note 19.1	**14,401**	28,292
Chairman, Directors and Board committee fees	**3,481**	7,058
	87,188	98,451

19.1 This includes employees' long-term incentive charge of SR nil (2020: SR 11.6 million).

20 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31,	
	2021	**2020**
Legal and professional charges – note 20.1	**5,637**	6,385
Utilities, telephone and communication	**5,577**	4,883
Insurance	**5,456**	6,571
Repairs, maintenance and office supplies	**4,991**	4,787
Rentals relating to short term leases	**4,827**	1,348
Marketing and advertisements	**4,427**	237
IT support charges – note 20.1	**1,873**	8,776
(Gain) / loss on valuation of repossessed assets – note 8	**(450)**	2,458
Other	**3,615**	3,535
	35,953	38,980

20.1 Legal and professional charges includes credit cards related expenses amounting to nil (2020: SR 1.1 million), Similarly IT support charges includes credit cards related expenses amounting to nil (2020: SR 3.5 million).

21 OTHER INCOME

	For the year ended December 31,	
	2021	**2020**
Rental income and others	**1,108**	867
Income on short-term deposit – murabaha	**359**	1,572
	1,467	2,439

22 EARNINGS PER SHARE

	As at December 31,	
	2021	**2020**
Net income	**225,088**	201,465
Weighted average number of shares in thousands for basic and diluted EPS (Adjusted for bonus issue and treasury shares)	**100,000**	98,723
Basic and Diluted EPS in Saudi Riyals	**2.25**	2.04

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

23 RELATED PARTY TRANSACTIONS AND BALANCES

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

Related party	Nature of transaction	December 31, 2021	December 31, 2020
Shareholders	Cash dividend declared and paid	**152,220**	98,507
Key management personnel (KMP) (Number of KMP: 15 (2020: 19)	Compensation for the period	**16,829**	22,007
	Incentive for continuing service	**-**	11,667
	Employees' end of service benefits	**861**	1,032
Chairman, Directors and Board Committee members	Remuneration for the period of Chairman, Directors and Board Committee members	**3,581**	7,058
Other related parties	Zakat/VAT consultancy fee	**288**	269
	IT software services rendered	**9,447**	8,053
Affiliates	Commodities/ securities dealings account - deposit made	**3,000**	26,500
	Rental charge	**1,116**	1,179
	Advisory charges and others	**70**	1,764

23.2 Key management personnel of the Company include Chief executive officer and senior management.

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

	Note	As at December 31, 2021	2020
Receivables from / advances to related parties			
Affiliates –Term deposit	5	**35,170**	34,562
Payables / accruals			
Key management compensation and Board remuneration	11	**6,582**	13,303
Provision of EOSB of Key Management Personnel		**3,266**	3,263

24 CONTINGENCY AND COMMITMENTS

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

Capital commitments
There are no significant capital commitments at the statement of financial position date.

Operating leases commitments
The Company's operating leases commitments are only for branches office premises and are not considered as significant. Commitments for short term leases amounts to SR 4.8 million (2020: SR 1.3 million).

Credit cards related commitments
Credit related commitments comprise irrevocable commitments to extend credit. The unused portion of commitments outstanding as on December 31, 2021 amounts to SR 6.4 million (2020: SR 2.1 million). Whereas SME related commitments amounts to SR 3.5 million.

25 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, 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 assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values

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

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

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

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

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

Fair value hierarchy of financial assets and liabilities
All financial assets and liabilities, except derivatives, which is carried at fair value and of insignificant amount, of the Company, are categorised as held at amortized cost, which approximate their fair value, and accordingly fair value hierarchy disclosure has not been provided.

26 FINANCIAL RISK MANAGEMENT

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

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

i) Credit risk

Credit risk is the risk that one party of a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum exposure to credit risk is equal to the carrying amount of financial assets. The Company's management analyses credit risk in the following categories:

Islamic financing receivables (IFR) – Also see 3.14 (d) and note 6
IFR are exposed to significant credit risk. The Company has established procedures to manage credit exposure including evaluation of credit worthiness, formal credit approvals, assigning credit limits, and obtaining collateral such as personal guarantees for retail whereas tangible collateral for SME customers above 100% from the amount financed. The overall underwriting decision is based on the following key parameters:

- Dual credit score i.e. SIMAH and Application scoring system
- Minimum income level and maximum debt burden of the borrower
- Loan repayment history with other financial institutions sourced from SIMAH
- Salary certificate from the employer and last three months bank statement where the customer's monthly salary is credited.

26 FINANCIAL RISK MANAGEMENT (continued)

i) Credit risk (continued)

Majority of the customers are Government sector employees. Customers are requested to provide standing instructions to credit Nayifat account towards monthly installments. In addition, the customers also provide direct debit mandate as a stand by repayment mode. The Company generally receives repayments through SADAD and bank transfers. The Company has an approved collection policy and procedure manual establishing a collection strategy to follow up with delinquent customers. In order to monitor exposure to credit risk, on monthly basis reports are produced by the Management information system (MIS) and are reviewed by credit committee on quarterly basis, these reports shows the collection and delinquent status of the customers. The Company has strengthened its legal department to be actively involved in the collection process of delinquent customers.

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

Generating the term structure of PD
Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. PD term structures are based on the default probability calculated on forward flow rates of past thirty-six months, adjusted by the outlook of the economy. For credit cards since due to unavailability of extensive period data retail loss rates has been used as a proxy value.

Significant increase in credit risk
In determining whether credit risk has increased significantly since initial recognition, the Company uses its quantitative changes in PDs, delinquency status of accounts and, where possible, relevant historical experience. Considering the huge portfolio of individual customers, the management believes that past-due information is the most appropriate method to assess the SICR without the undue cost and efforts.

Accordingly, based on instalment collection history, the management believes that the significant increase in credit risk arise only when the instalment is past due for more than 60 days and considered as underperforming and after 90 days due become non-performing. The management activates the recovery team for the purposes of collection of outstanding balance as the receivable is non-performing.

Measurement of ECL
The Company measures an ECL at an account level considering the EAD, PD, LGD and discount rate. PD estimates are estimates at a certain date, based on the term structures as provided above. For LGD estimates of retail portfolio, the Company use present value of recoveries for loss accounts adjusted by the forward-looking information. Further for SME contracts the collateral value after applying the haircut is considered as an 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 an IFR (Tawarruq) is its gross carrying amount, for credit cards assigned limit is considered as EAD for provisioning calculation purpose. For discounting the Company has used each contract's effective interest rate.

The Company's management believes that adequate provision has been made, where required to address the credit risk. Moreover, the Company in the ordinary course of providing finance receivables are subject to additional personal guarantees for security to mitigate credit risk associated with IFR. For additional credit quality disclosure relating to IFR, please refer Note 6 to these financial statements. The credit quality of Non-performing loans is further explained below:

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

26 FINANCIAL RISK MANAGEMENT (continued)

i) Credit risk (continued)

2021	Non-Performing	Provision for impairment	Net of Provisioning
Aging of Islamic financing receivables (Tawarruq retail) based on past due days			
90 to 180	**34,399**	**(4,704)**	**29,695**
180 to 270	**29,005**	**(7,426)**	**21,579**
270 to 360	**20,294**	**(6,750)**	**13,544**
360 to 450	**16,147**	**(6,681)**	**9,466**
450 to 540	**14,847**	**(7,508)**	**7,339**
540 to 630	**12,157**	**(6,785)**	**5,372**
630 & above	**24,764**	**(7,597)**	**17,167**
Total	**151,613**	**(47,451)**	**104,162**

2020	Non-Performing	Provision for impairment	Net of Provisioning
Aging of Islamic financing receivables (Tawarruq retail) based on past due days			
90 to 180	32,465	(1,285)	31,180
180 to 270	21,882	(3,000)	18,882
270 to 360	23,910	(6,443)	17,467
360 to 450	21,256	(7,808)	13,448
450 to 540	14,002	(7,501)	6,501
540 to 630	10,076	(7,024)	3,052
630 & above	7,231	(5,817)	1,414
Total	130,822	(38,878)	91,944

2021	Non-Performing	Provision for impairment	Net of Provisioning
Aging of Islamic financing receivables (Tawarruq SME) based on past due days			
90 to 180	**35,570**	-	**35,570**
180 to 270	-	-	-
270 to 360	**9,785**	-	**9,785**
360 to 450	-	-	-
450 to 540	-	-	-
540 to 630	-	-	-
630 & above	-	-	-
Total	**45,355**	-	**45,355**

As on December 31, 2020 NPLs for SME sector was nil.

Concentration of credit risk
The concentration of credit risk is the risk that the Company is exposed to if they invested all their assets in one sector or one industry. The Company's IFR constitute Tawarruq personal financing to retail, SME financing and credit cards to retail customers.

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

26 FINANCIAL RISK MANAGEMENT (continued)

i) Credit risk (continued)

Cash and bank balances and other receivables
The Company believes that it has a low credit risk on these financial assets and the loss allowance would not be material for the Company. The Bank balances are held with a bank which has been assigned investment grade rating "A-2" as per Standard and Poor's (S&P). Hence, currently the Company is not exposed to any significant credit risk. Other receivables are not significant and not exposed to significant credit risk.

ii) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Company also has revolving credit facilities from commercial banks that it can access to meet future liquidity needs.

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

December 31, 2021	Less than 3 months	3 to 12 months	1 to 5 years	Total 2021
Financial assets - commission bearing				
Islamic financing receivables - Gross	284,582	567,097	1,560,155	2,411,834
Term and margin deposits	-	-	70,000	70,000
	284,582	567,097	1,630,155	2,481,834
Financial assets - non commission bearing				
Cash and cash equivalents	59,123	-	-	59,123
Term and margin deposits	-	35,170	28,538	63,708
	59,123	35,170	28,538	122,831
Total financial assets	343,705	602,267	1,658,693	2,604,665
Financial liabilities - commission bearing				
Islamic bank financing	(71,980)	(147,898)	(395,374)	(615,252)
Lease Liabilities	(144)	(315)	(1,065)	(1,524)
	(72,124)	(148,213)	(396,439)	(616,776)
Financial liabilities - non commission bearing				
Accruals and other liabilities	(26,537)	(1,178)	(5,312)	(33,027)
Zakat Payable	-	(5,771)	(5,770)	(11,541)
	(26,537)	(6,949)	(11,082)	(44,568)
Total financial liabilities	(98,661)	(155,162)	(407,521)	(661,344)
Net financial assets:				
Commission bearing	212,458	418,884	1,233,716	1,865,058
Non-commission bearing	32,586	28,221	17,456	78,263
	245,044	447,105	1,251,172	1,943,321

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

26 FINANCIAL RISK MANAGEMENT (continued)

ii) Liquidity risk (conintued)

December 31, 2020	Less than 3 months	3 to 12 months	1 to 5 years	Total 2020
Financial assets - commission bearing				
Islamic financing receivables - Gross	257,249	539,594	1,540,671	2,337,513
Term and margin deposits	50,000	-	70,000	120,000
	307,249	539,594	1,610,671	2,457,514
Financial assets - non commission bearing				
Cash and cash equivalents	70,092	-	-	70,092
Term and margin deposits	-	70,150	-	70,150
	70,092	70,150	-	140,242
Total financial assets	377,341	609,744	1,610,671	2,597,756
Financial liabilities - commission bearing				
Islamic bank financing	(120,583)	(167,487)	(425,345)	(713,415)
Lease Liabilities	(1,050)	(688)	(1,889)	(3,627)
	(121,633)	(168,175)	(427,234)	(717,042)
Financial liabilities - non commission bearing				
Accruals and other liabilities	(26,428)	(1,994)	(6,285)	(34,707)
Zakat Payable	-	(5,771)	(11,540)	(17,311)
	(26,428)	(7,765)	(17,825)	(52,018)
Total financial liabilities	(148,061)	(175,940)	(445,059)	(769,060)
Net financial assets:				
Commission bearing	185,616	371,419	1,183,437	1,740,472
Non-commission bearing	43,664	62,385	(17,825)	88,224
	229,280	433,804	1,165,612	1,828,696

iii) Profit rate risk

Profit rate risk is the impact on future earnings of the Company resulting from change in the market profit rates. The risk arises when there is a mismatch in the assets and liabilities, which are subject to profit rate adjustment within a specified year. The most important source of such risk is the Company's financing receivables and Islamic bank financing.

The financial liabilities of SR 582.6 million (2020: SR 635.9 million) are based on floating rates and not subject to profit rate swap and thus, a 100 basis points change in commission rates could have approximately a SR 14.5 million (2020: SR 6.2 million) annual effect on the Company's profitability. The Company's management through the risk management committee monitors the fluctuations in commission rates on regular basis and take appropriate measures to minimize the profit rate risk by adjusting lending rate for future contracts.

iv) Currency risk

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

v) Price risk

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

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

27 SEGMENT

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

The Company's reportable segments are as follows:

1) **Retail (Personal financing):** These personal financing are provided to retail segment under Tawarruq.

2) **Retail (Credit cards):** Islamic credit cards are provided to retail customers under Tawarruq.

3) **SME financing:** These financing to provided to small and medium enterprises under Tawarruq.

The segment wise breakup is as follows:

2021 ***Tawarruq***	**Retail (Personal Financing)**	**SME**	**Credit cards (Retail)**	**Total**
Total assets	**1,610,744**	**229,182**	**27,621**	**1,867,547**
Total Liabilities	**584,353**	**80,703**	**10,248**	**675,304**
Total income	**365,769**	**23,651**	**2,902**	**392,322**
Total expenses	**(126,623)**	**(9,609)**	**(5,502)**	**(141,734)**
Net income/(loss) before zakat	**239,146**	**14,042**	**(2,600)**	**250,588**

2020 *Tawarruq*	**Retail (Personal Financing)**	**SME**	**Credit cards (Retail)**	**Total**
Total assets	1,774,232	84,609	10,560	1,869,401
Total Liabilities	712,597	33,177	4,252	750,026
Total income	406,764	9,206	939	416,909
Total expenses	(181,996)	(5,386)	(3,766)	(191,148)
Net income/(loss) before zakat	224,768	3,820	(2,827)	225,761

28 CAPITAL MANAGEMENT

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

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

	2021	**2020**
Aggregate financing to capital ratio (Islamic financing receivables divided by total equity)	**1.32 times**	1.35 times

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

29 FINANCIAL INSTRUMENTS

	Note	2021	2020
Financial assets – at amortized cost			
Cash and cash equivalents	5	**59,123**	70,092
Term and margin deposits	5	**133,708**	190,150
Islamic financing receivables	6	**1,574,453**	1,520,583
Financial liabilities – at amortized cost			
Accruals and other liabilities	11	**33,027**	34,707
Islamic bank financing	12	**592,316**	661,354
Lease liabilities	12	**1,011**	3,452
Financial liabilities – at fair value			
Unrealized loss on fair valuation of derivatives (level 2)	12	**-**	54

30 IMPACT OF COVID-19

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are beginning to experience "fourth wave" and its different variants of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government.

Nayifat's business operations has shown improvement in disbursements since June 2020 after showing decline during the months of April and May, on the collection side on the other hand the Company has achieved the same levels as was the case pre COVID-19 after facing marginal decline in April and May 2020. This is mainly due to the reason that majority of the retail customer base is Government sector employees.

From a liquidity perspective the Company has access to substantial unutilized long-term facilities from banks to finance its current and long-term funding needs of which approximately only 29% (SR 0.6 billion) stands utilized (out of total limit of SR 1.9 billion) as at December 31, 2021. Further because of regular collections the Company has sufficient liquidity available in addition to the un-utilized bank limits, and therefore the Company is not significantly exposed to liquidity risk. The management of the Company has taken a pro-active step by placing the surplus funds available with banks to generate revenue and minimize the impact on the Company's net income.

Based on these factors, the Company's management believes that the COVID-19 pandemic has had it's impact on the profitability of the Company, only due to ECL and reduced disbursals, however, this is expected to be temporary. Therefore, if the COVID-19 pandemic situation prolongs for a longer period of time or lockdown restrictions are re-imposed this may impact the profitability of the Company in view of the reduction in loan bookings compared to past period and may also have an impact on the collections from higher buckets dues. The Company's management continues to monitor the situation closely and will modify its strategy based on the prevalent situation as may be required.

31 SUBSEQUENT EVENT

There was no subsequent event after the year-end which require disclosure or adjustment in these financial statements.

32 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved and authorised for issue by the Board of Directors of the Company on January 30, 2022.