

**UNITED ELECTRONICS COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED
31 MARCH 2023
AND REPORT ON REVIEW OF INTERIM
FINANCIAL INFORMATION**

UNITED ELECTRONICS COMPANY
(A Saudi Joint Stock Company)
Condensed consolidated interim financial information (Unaudited)
For the three-month period ended 31 March 2023

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Report on review of Condensed Consolidated Interim Financial Information

To the shareholders of United Electronics Company
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of United Electronics Company (the “Company”) and its subsidiaries (the “Group”) as of 31 March 2023 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 - “Interim Financial Reporting” (IAS 34), as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity”, as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

Ali A. Alotaibi
License Number 379



8 May 2023

UNITED ELECTRONICS COMPANY
(A Saudi Joint Stock Company)




Condensed consolidated interim statement of profit or loss and other comprehensive income

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the three-month period ended 31 March	
		2023	2022 (Restated - Note 15) (Unaudited) (Unaudited)
Sales and services	5	1,315,036	1,315,012
Income from Islamic financing contracts		123,100	96,966
Total revenue		1,438,136	1,411,978
Cost of revenues		(1,124,253)	(1,121,808)
Gross profit		313,883	290,170
Selling and distribution expenses	6	(142,992)	(133,447)
General and administrative expenses		(54,432)	(39,483)
Net impairment losses on financial assets		(7,764)	(3,618)
Other expenses		(746)	(640)
Other income		1,771	2,475
Finance charges		(15,927)	(9,821)
Profit before zakat and income tax		93,793	105,636
Zakat expense		(9,165)	(8,129)
Income tax expense		(184)	-
Net profit for the period		84,444	97,507
Other comprehensive income			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		(3,693)	28
Total comprehensive income for the period		80,751	97,535
Earnings per share			
Basic earnings per share	12	1.12	1.30
Diluted earnings per share	12	1.06	1.22

The accompanying notes are an integral part of this condensed consolidated interim financial information.

The condensed consolidated interim financial information was approved by the Board of Directors on 7 May 2023 and was signed on their behalf by:

 Wael Mohammed Mohammed Khalil Chief Financial Officer	 Mohammed Galal Ali Fahmy Chief Executive Officer	 Abduljabbar AbdulRahman Mohammed AlAbduljabbar Chairman
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UNITED ELECTRONICS COMPANY
(A Saudi Joint Stock Company)
Condensed consolidated interim statement of financial position
(All amounts in Saudi Riyals thousands unless otherwise stated)

		As at 31 March 2023	As at 31 December 2022
	Note	(Unaudited)	(Audited)
Assets			
Non-current assets			
Property and equipment		501,870	495,134
Right-of-use assets		440,022	451,185
Net investment in finance lease		46,079	46,908
Intangible assets		56,786	54,565
Goodwill		529	529
Trade and other receivables		20,391	6,395
Investment in Islamic financing contracts	6	961,570	894,032
Total non-current assets		2,027,247	1,948,748
Current assets			
Inventories		1,156,565	1,079,632
Trade and other receivables		113,634	129,794
Net investment in finance lease		3,626	2,095
Investment in Islamic financing contracts	6	716,987	663,162
Cash and cash equivalents	7	187,607	146,669
Total current assets		2,178,419	2,021,352
Total assets		4,205,666	3,970,100
Equity and liabilities			
Equity			
Share capital		800,000	800,000
Statutory reserve		72,602	64,158
Other reserves		4,464	3,657
Retained earnings		403,136	327,136
Treasury shares		(55,651)	(55,651)
Total equity		1,224,551	1,139,300
Liabilities			
Non-current liabilities			
Deferred revenue from extended warranty program		126,226	126,433
Lease liabilities		568,206	573,319
Borrowings	8	533,625	401,667
Employee benefit obligations		80,823	79,090
Total non-current liabilities		1,308,880	1,180,509




(Continued)

UNITED ELECTRONICS COMPANY**(A Saudi Joint Stock Company)****Condensed consolidated interim statement of financial position (continued)****(All amounts in Saudi Riyals thousands unless otherwise stated)**

	Note	As at 31 March 2023 (Unaudited)	As at 31 December 2022 (Audited)
Current liabilities			
Trade and other payables	9	857,580	690,155
Deferred revenue from extended warranty program		124,092	113,297
Lease liabilities		20,023	28,255
Borrowings	8	619,992	777,384
Zakat and income tax		50,548	41,200
Total current liabilities		1,672,235	1,650,291
Total liabilities		2,981,115	2,830,800
Total equity and liabilities		4,205,666	3,970,100

The accompanying notes are an integral part of this condensed consolidated interim financial information.

The condensed consolidated interim financial information was approved by the Board of Directors on 7 May 2023 and was signed on their behalf by:


 Wael Mohammed Mohammed Khalil Chief Financial Officer	 Mohammed Galal Ali Fahmy Chief Executive Officer	 Abduljabbar AbdulRahman Mohammed AlAbduljabbar Chairman
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UNITED ELECTRONICS COMPANY
(A Saudi Joint Stock Company)
Condensed consolidated interim statement of changes in equity
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Other reserves			Total other reserves	Retained earnings	Treasury shares	Total equity
				Share based payment reserve	Foreign currency translation reserve	Actuarial reserve				
At 1 January 2022 (Audited)		600,000	69,481	21,851	(271)	(6,176)	15,404	339,672	(32,000)	992,557
Profit for the period		-	-	-	-	-	-	97,507	-	97,507
Other comprehensive income for the period		-	-	-	28	-	28	-	-	28
Total comprehensive income for the period		-	-	-	28	-	28	97,507	-	97,535
Transfer to statutory reserve		-	9,751	-	-	-	-	(9,715)	-	-
Dividends	14	-	-	-	-	-	-	(146,765)	-	(146,765)
Issuance of treasury shares to employees		-	-	(11,883)	-	-	(11,883)	-	11,883	-
Employee share schemes - value of employee services		-	-	1,501	-	-	1,501	-	-	1,501
At 31 March 2022 (Unaudited)		600,000	79,232	11,469	(243)	(6,176)	5,050	280,663	(20,117)	944,828
At 1 January 2023 (Audited)		800,000	64,158	9,968	(212)	(6,099)	3,657	327,136	(55,651)	1,139,300
Profit for the period		-	-	-	-	-	-	84,444	-	84,444
Other comprehensive income for the period		-	-	-	(3,693)	-	(3,693)	-	-	(3,693)
Total comprehensive income for the period		-	-	-	(3,693)	-	(3,693)	84,444	-	80,751
Transfer to statutory reserve		-	8,444	-	-	-	-	(8,444)	-	-
Employee share schemes - value of employee services		-	-	4,500	-	-	4,500	-	-	4,500
At 31 March 2023 (Unaudited)		800,000	72,602	14,468	(3,905)	(6,099)	4,464	403,136	(55,651)	1,224,551

The accompanying notes are an integral part of this condensed consolidated interim financial information.

The condensed consolidated interim financial information was approved by the Board of Directors on 7 May 2023 and was signed on their behalf by:


Wael Mohammed Mohammed Khalil
 Chief Financial Officer


Mohammed Galal Ali Fahmy
 Chief Executive Officer


Abduljabbar AbdulRahman Mohammed
 ALAbduljabbar
 Chairman

UNITED ELECTRONICS COMPANY
(A Saudi Joint Stock Company)
Condensed consolidated interim statement of cash flows
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the three-month period ended 31 March	
		2023 (Unaudited)	2022 (Unaudited)
Cash flows from operating activities			
Profit before zakat and income tax		93,793	105,636
<u>Adjustments for:</u>			
Depreciation of property and equipment		12,821	11,097
Loss on disposal of property and equipment		-	14
Depreciation of right-of-use assets		12,714	12,381
Amortization of intangible assets		3,357	3,691
Employee share schemes - value of employee services		4,500	1,501
Net impairment losses on financial assets	6	7,764	3,618
Amorisation of extended warranty program		(35,063)	(26,420)
Gain on termination of a lease		-	(908)
Finance income from net investment in finance lease		(702)	(211)
Finance charges		29,294	13,504
Provision for employee benefit obligations		3,343	3,182
<u>Changes in operating assets and liabilities:</u>			
Decrease in trade and other receivables		2,164	7,008
Increase in investment in Islamic financing contracts		(129,127)	(61,797)
Increase in inventories		(76,933)	(197,100)
Increase in trade and other payables		163,875	65,101
Increase in deferred revenue from extended warranty program		45,651	38,511
Cash generated from (utilized in) operations		137,451	(21,192)
Employee benefit obligations paid		(1,610)	(1,973)
Principal element of lease payments received Finance cost paid		-	626
		(29,294)	(13,667)
Net cash inflow (outflow) from operating activities		106,547	(36,206)
Cash flows from investing activities			
Payments for purchases of property and equipment		(19,420)	(23,146)
Payments for purchases of intangible assets		(5,578)	(1,698)
Proceeds from disposal of property and equipment		-	173
Net cash outflow from investing activities		(24,998)	(24,671)
Cash flows from financing activities			
Proceeds from long-term borrowings		405,500	35,000
Repayment of long-term borrowings		(232,934)	(30,937)
Proceeds from short-term borrowings		405,165	385,000
Repayment of short-term borrowings		(603,165)	(320,000)
Principal elements of lease payments		(15,177)	(24,631)
Net cash (outflow) inflow from financing activities		(40,611)	44,432

(Continued)

UNITED ELECTRONICS COMPANY**(A Saudi Joint Stock Company)****Condensed consolidated interim statement of cash flows** (continued)

(All amounts in Saudi Riyals thousands unless otherwise stated)

		For the three-month period ended 31 March	
		2023	2022
		(Unaudited)	(Unaudited)
Net increase (decrease) in cash and cash equivalents		40,938	(16,445)
Cash and cash equivalents at beginning of period		146,669	173,158
Cash and cash equivalents at end of period	7	187,607	156,713
Non-cash investing and financing activities:			
Right-of-use assets recorded against lease liabilities		3,892	-
Depreciation of right-of-use assets capitalized to property and equipment		137	-

The accompanying notes are an integral part of this condensed consolidated interim financial information.

The condensed consolidated interim financial information was approved by the Board of Directors on 7 May 2023 and was signed on their behalf by:



**Wael Mohammed Mohammed
Khalil**
Chief Financial Officer



**Mohammed Galal Ali
Fahmy**
Chief Executive
Officer



**Abduljabbar AbdulRahman
Mohammed AlAbduljabbar**
Chairman

UNITED ELECTRONICS COMPANY
(A Saudi Joint Stock Company)
Notes to the condensed consolidated interim financial information (Unaudited)
For the three-month period ended 31 March 2023
(All amounts in Saudi Riyals thousands unless otherwise stated)

1 General information

United Electronics Company (the “Company”) is a Saudi Joint Stock Company registered in Al Khobar under Commercial Registration (“CR”) number 2051029841 dated 10 Jumada II 1425H (corresponding to 27 July 2004). The shares of the Company were listed on the Saudi Stock Exchange (“Saudi Exchange”) on 24 December 2011.

The registered address of the Company is P.O. Box 76688 Al Khobar 31952, Kingdom of Saudi Arabia.

The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) include the wholesale and retail trade in electric appliances, electronic gadgets, computers and their spare parts and accessories, furniture, office equipment and tools, maintenance and repair services, third-party marketing and consumer financing services.

The accompanying condensed consolidated interim financial information include the activities of the Company and its following wholly owned direct and indirect subsidiaries.

Subsidiaries	Country of incorporation
United Company for Maintenance Services (“UCMS”)	Kingdom of Saudi Arabia
United International Holding Company (“UIHC”)	Kingdom of Saudi Arabia
United Company for Financial Services (“UCFS”)	Kingdom of Saudi Arabia
Procco Financial Services W.L.L. (“Procco”)	Kingdom of Bahrain
United Electronics Company Extra W.L.L. (“eXtra Bahrain”)	Kingdom of Bahrain
United Electronics Company Extra L.L.C. (“eXtra Oman”)	Sultanate of Oman
Extra Electronics Company (“eXtra Egypt”)	Arab Republic of Egypt
Extra for Import (“eXtra Import”)	Arab Republic of Egypt

As at 31 March 2023, the Group had a total of 54 branches (31 December 2022: 54 branches) out of which 48 branches are in the Kingdom of Saudi Arabia (31 December 2022: 48 branches in the Kingdom of Saudi Arabia).

The accompanying condensed consolidated interim financial information was approved by the Company’s Board of Directors on 7 May 2023.

2 Accounting policies

The principal accounting policies applied in the preparation of the condensed consolidated interim financial information of the Group are consistent with those of the previous financial year and corresponding interim reporting periods.

2.1 Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial information of the Group has been prepared in compliance with IAS 34 “Interim Financial Reporting” (“IAS 34”), 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 condensed consolidated interim financial information does not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, this condensed consolidated interim financial information is to be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2022.

UNITED ELECTRONICS COMPANY
(A Saudi Joint Stock Company)
Notes to the condensed consolidated interim financial information (Unaudited)
For the three-month period ended 31 March 2023
(All amounts in Saudi Riyals thousands unless otherwise stated)

2 Accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Historical cost convention

The condensed consolidated interim financial information is prepared under the historical cost convention, except as explained in the relevant accounting policies in the annual consolidated financial statements for the year ended 31 December 2022.

(c) New standards, amendments to standards and interpretations

A number of new and amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

IFRS 17 – Insurance contracts (“IFRS 17”)

The Group is required to write-off exposures for deceased customers and accordingly there is an insurance risk under the Islamic financing contracts. Upon adoption of IFRS 17 effective from 1 January 2023, the Group has made a policy choice to continue to account for such exposures under IFRS 9 ‘Financial Instruments’ instead of IFRS 17. Accordingly, based on management’s assessment, there was no impact upon adoption of IFRS 17.

(d) Standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2023 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3 Fair value of assets and liabilities

As at 31 March 2023 and 31 December 2022, all financial assets and financial liabilities of the Group are categorized as held at amortized cost. Management believes that the fair values of the Group's financial assets and liabilities as at 31 March 2023 and 31 December 2022 are not materially different from their carrying values since the financial instruments are short term in nature, carry profit rates which are based on prevailing market profit rates and are expected to be realized at their current carrying values within twelve months from the date of the statement of financial position. The fair values of the non-current financial instruments are estimated to approximate their carrying values as these carry profit rates which are based on prevailing market profit rates. During the three-month period ended 31 March 2023, there have been no significant market developments which might indicate towards a potential change in fair value of the Group’s financial instruments.

4 Critical accounting estimates and judgements

The preparation of condensed consolidated interim financial information requires the use of certain critical estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no significant changes in critical accounting estimates and judgements used by management in the preparation of the condensed consolidated interim financial information from those that were applied and disclosed in the annual consolidated financial statements for the year ended 31 December 2022. Also see Notes 6 and 14.

UNITED ELECTRONICS COMPANY
(A Saudi Joint Stock Company)
Notes to the condensed consolidated interim financial information (Unaudited)
For the three-month period ended 31 March 2023
(All amounts in Saudi Riyals thousands unless otherwise stated)

5 Revenue

	For the three-month period ended 31 March	
	2023	2022
	(Unaudited)	(Unaudited)
Recognized at a point in time		
Retail	1,031,171	998,258
Wholesale	7,600	2,141
E-commerce	240,594	287,388
	1,279,365	1,287,787
Recognized over time		
Extended warranty program	35,088	26,424
Others	583	801
	35,671	27,225
Total sales and services	1,315,036	1,315,012
Income from Islamic financing contracts	123,100	96,966
	1,438,136	1,411,978

6 Investment in Islamic financing contracts

	31 March 2023	31 December 2022
	(Unaudited)	(Audited)
Instalment sales receivables, net	70	2,564
Investment in Tawarruq financing contracts, net	1,272,348	1,149,838
Investment in Murabaha financing contracts, net	395,119	398,324
Investment in Islamic credit cards, net	11,020	6,468
	1,678,557	1,557,194
Less: non- current portion	(961,570)	(894,032)
Current portion	716,987	663,162

UNITED ELECTRONICS COMPANY
(A Saudi Joint Stock Company)
Notes to the condensed consolidated interim financial information (Unaudited)
For the three-month period ended 31 March 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

6 Investment in Islamic financing contracts (continued)
6.1 Reconciliation between gross and net investment in Islamic financing contracts is as follows:

	Installment sales		Tawarruq finance		Murabaha finance		Islamic credit card		Total	
	31 March 2023	31 December 2022	31 March 2023	31 December 2022	31 March 2023	31 December 2022	31 March 2023	31 December 2022	31 March 2023	31 December 2022
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Gross investment in Islamic financing contracts	33,494	36,888	1,933,779	1,756,430	526,041	531,820	11,560	6,833	2,504,874	2,331,971
Unearned finance and processing fee income	(8,061)	(8,534)	(620,745)	(566,528)	(124,308)	(127,170)	-	-	(753,114)	(702,232)
Present value of Islamic financing contracts' receivables ("P.V. of I.F.C.")	25,433	28,354	1,313,034	1,189,902	401,733	404,650	11,560	6,833	1,751,760	1,629,739
Allowance for ECL	(25,363)	(25,790)	(40,686)	(40,064)	(6,614)	(6,326)	(540)	(365)	(73,203)	(72,545)
Net investment in Islamic financing contracts ("Net investment in I.F.C.")	70	2,564	1,272,348	1,149,838	395,119	398,324	11,020	6,468	1,678,557	1,557,194
Net investment in I.F.C. - non-current portion	-	-	(844,589)	(773,390)	(116,981)	(120,642)	-	-	(961,570)	(894,032)
Net investment in I.F.C. - current portion	70	2,564	427,759	376,448	278,138	277,682	11,020	6,468	716,987	663,162

UNITED ELECTRONICS COMPANY

(A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial information (Unaudited)

For the three-month period ended 31 March 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

6 Investment in Islamic financing contracts (continued)

6.2 The movement in allowance for ECL on Islamic financing contracts is as follows:

	Installment sales		Tawarruq finance		Murabaha finance		Islamic credit card		Total	
	31 March 2023 (Unaudited)	31 December 2022 (Audited)	31 March 2023 (Unaudited)	31 December 2022 (Audited)	31 March 2023 (Unaudited)	31 December 2022 (Audited)	31 March 2023 (Unaudited)	31 December 2022 (Audited)	31 March 2023 (Unaudited)	31 December 2022 (Audited)
Opening balance	25,790	25,790	40,064	23,933	6,326	9,431	365	-	72,545	59,154
Charge (reversal) for the period / year	(427)	-	8,563	42,044	2,386	5,451	175	365	10,697	47,860
Recoveries of amounts previously written - off	-	-	(2,146)	(4,692)	(787)	(2,413)	-	-	(2,933)	(7,105)
Net (reversal) charge for the period/year	(427)	-	6,417	37,352	1,599	3,038	175	365	7,764	40,755
Write-offs during the period / year	-	-	(5,795)	(21,221)	(1,311)	(6,143)	-	-	(7,106)	(27,364)
Closing balance	25,363	25,790	40,686	40,064	6,614	6,326	540	365	73,203	72,545

UNITED ELECTRONICS COMPANY
(A Saudi Joint Stock Company)
Notes to the condensed consolidated interim financial information (Unaudited)
For the three-month period ended 31 March 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

6 Investment in Islamic financing contracts (continued)
6.3 Stage-wise analysis of Islamic financing contracts and the respective ECL are as follows:

31 March 2023 (Unaudited)	Instalment sales			Tawarruq finance			Murabaha finance			Islamic credit card			Total		
	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.
Performing (Stage 1)	-	-	-	1,210,985	(10,877)	1,200,108	366,140	(1,365)	364,775	9,853	(72)	9,781	1,586,978	(12,314)	1,574,664
Under-performing (Stage 2)	-	-	-	32,706	(4,715)	27,991	15,018	(923)	14,095	766	(94)	672	48,490	(5,732)	42,758
Non-performing (Stage 3)	25,433	(25,363)	70	69,343	(25,094)	44,249	20,575	(4,326)	16,249	941	(374)	567	116,292	(55,157)	61,135
	25,433	(25,363)	70	1,313,034	(40,686)	1,272,348	401,733	(6,614)	395,119	11,560	(540)	11,020	1,751,760	(73,203)	1,678,557

31 December 2022 (Audited)	Instalment sales			Tawarruq finance			Murabaha finance			Islamic credit card			Total		
	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.	P.V of I.F.C.	Allowance for ECL	Net investment in I.F.C.
Performing (Stage 1)	41	(37)	4	1,102,246	(10,500)	1,091,746	378,868	(1,408)	377,460	5,841	(47)	5,794	1,486,996	(11,992)	1,475,004
Under-performing (Stage 2)	90	(82)	8	18,730	(2,890)	15,840	4,759	(196)	4,563	496	(96)	400	24,075	(3,264)	20,811
Non-performing (Stage 3)	28,223	(25,671)	2,552	68,926	(26,674)	42,252	21,023	(4,722)	16,301	496	(222)	274	118,668	(57,289)	61,379
	28,354	(25,790)	2,564	1,189,902	(40,064)	1,149,838	404,650	(6,326)	398,324	6,833	(365)	6,468	1,629,739	(72,545)	1,557,194

UNITED ELECTRONICS COMPANY

(A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial information (Unaudited)

For the three-month period ended 31 March 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

6 Investment in Islamic financing contracts (continued)

6.4 Stage-wise movement in ECL allowance/impairment on investment in Islamic financing contracts is as follows:

	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Total
<u>2023</u>				
1 January 2023	11,992	3,264	57,289	72,545
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(1,085)	5,023	(1,049)	2,889
Individual financial assets transferred to non -performing (credit-impaired financial assets)	(602)	(1,663)	6,839	4,574
Individual financial assets transferred to performing (12-month expected credit losses)	187	(605)	(1,104)	(1,522)
New financial assets originated	3,063	-	-	3,063
Amounts written-off	-	-	(7,106)	(7,106)
Other changes	(1,241)	(287)	288	(1,240)
31 March 2023	12,314	5,732	55,157	73,203
	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Total
<u>2022</u>				
1 January 2022	8,442	3,409	47,303	59,154
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(1,865)	3,135	(146)	1,124
Individual financial assets transferred to non -performing (credit-impaired financial assets)	(10,966)	(1,600)	30,267	17,701
Individual financial assets transferred to performing (12-month expected credit losses)	40	(361)	(329)	(650)
New financial assets originated	19,074	-	-	19,074
Amounts written-off	(65)	(128)	(27,171)	(27,364)
Other changes	(2,668)	(1,191)	7,365	3,506
31 December 2022	11,992	3,264	57,289	72,545

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6 Investment in Islamic financing contracts (continued)

6.5 Category-wise movement in stage-wise ECL allowance/impairment is as follows:

	Instalment sales			Tawarruq finance			Murabaha finance			Islamic credit card			Total		
	Performing	Under-	Non-	Performing	Under-	Non-	Performing	Under-	Non-	Performing	Under-	Non-	Performing	Under-	Non-
2023	(Stage 1)	(Stage 2)	(Stage 3)	(Stage 1)	(Stage 2)	(Stage 3)	(Stage 1)	(Stage 2)	(Stage 3)	(Stage 1)	(Stage 2)	(Stage 3)	(Stage 1)	(Stage 2)	(Stage 3)
At 1 January	37	82	25,671	10,500	2,890	26,674	1,408	196	4,722	47	96	222	11,992	3,264	57,289
Individual financial assets transferred to	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- under-performing (lifetime expected credit losses)	-	-	-	(788)	4,054	(903)	(286)	875	(146)	(11)	94	-	(1,085)	5,023	(1,049)
- non-performing (credit-impaired financial assets)	-	-	-	(503)	(1,491)	5,612	(99)	(96)	1,063	-	(75)	163	(602)	(1,662)	6,838
- performing (12-month expected credit losses)	-	-	-	172	(545)	(945)	16	(49)	(149)	-	(11)	(12)	188	(605)	(1,106)
New financial assets originated	-	-	-	2,473	-	-	568	-	-	23	-	-	3,064	-	-
Amounts written-off	-	-	-	-	-	(5,794)	-	-	(1,312)	-	-	-	-	-	(7,106)
Other changes	(37)	(82)	(308)	(977)	(193)	450	(242)	(3)	148	13	(10)	1	(1,243)	(288)	291
At 31 March	-	-	25,363	10,877	4,715	25,094	1,365	923	4,326	72	94	374	12,314	5,732	55,157

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6 Investment in Islamic financing contracts (continued)

6.5 Category-wise movement in stage-wise ECL allowance/impairment is as follows: (continued)

	Instalment sales			Tawarruq finance			Murabaha finance			Islamic credit card			Total		
	Performing	Under-	Non-	Performing	Under-	Non-	Performing	Under-	Non-	Performing	Under-	Non-	Performing	Under-	Non-
2022	(Stage 1)	(Stage 2)	(Stage 3)	(Stage 1)	(Stage 2)	(Stage 3)	(Stage 1)	(Stage 2)	(Stage 3)	(Stage 1)	(Stage 2)	(Stage 3)	(Stage 1)	(Stage 2)	(Stage 3)
At 1 January	703	768	24,319	6,019	2,067	15,847	1,720	574	7,137	-	-	-	8,442	3,409	47,303
Individual financial assets transferred to - under-performing (lifetime expected credit losses)	-	-	-	(1,597)	2,837	(136)	(172)	201	(9)	(96)	96	-	(1,865)	3,134	(145)
- non-performing (credit-impaired financial assets)	-	-	-	(8,827)	(1,312)	26,780	(1,917)	(287)	3,264	(222)	-	222	(10,966)	(1,599)	30,266
- performing (12-month expected credit losses)	-	-	-	37	(274)	(222)	3	(87)	(107)	-	-	-	40	(361)	(329)
New financial assets originated	-	-	-	15,753	-	-	2,979	-	-	342	-	-	19,074	-	-
Amounts written-off	-	-	-	(55)	(81)	(21,087)	(10)	(47)	(6,084)	-	-	-	(65)	(128)	(27,171)
Other changes	(666)	(686)	1,352	(830)	(347)	5,492	(1,195)	(158)	521	23	-	-	(2,668)	(1,191)	7,365
At 31 December	37	82	25,671	10,500	2,890	26,674	1,408	196	4,722	47	96	222	11,992	3,264	57,289

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6 Investment in Islamic financing contracts (continued)

6.5 Category-wise movement in stage-wise ECL allowance/impairment is as follows: (continued)

Following factors contributed to the change in the ECL allowance during the three-month period ended 31 March 2023:

- Transfers between Stage 1, 2 and 3, due to balances experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Management updates the inputs with respect to macroeconomic factors to their ECL model on a quarterly basis based on the latest available information. which contributes to determination of the overall scalar factor used. Furthermore, changes in unemployment statistics are also used in determination of the overall scalar factor used to incorporate the impact of forward-looking information to the ECL computation. This did not have a significant impact on the net impairment losses / ECL allowance as of and for the three-month period ended 31 March 2023. There were no other changes made to the underlying methodology and significant judgments used by management in preparation of the ECL model during such period;
- Additional allowances for new financial assets recognised during the year;
- Financial assets written off; and
- 'Other changes' principally represent net impact of additional allowance for ECL recognized upon write-offs and recoveries from previously written-off exposures.

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6 Investment in Islamic financing contracts (continued)
6.6 Category-wise movement in stage-wise gross investment in Islamic financing contracts is as follows:

	Instalment sales			Tawarruq finance			Murabaha finance			Islamic credit card			Total		
	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)
2023															
At 1 January	41	91	28,222	1,102,246	18,730	68,926	378,862	4,759	26,113	5,841	496	496	2,134,111	33,811	164,045
Individual financial assets transferred to															
- under-performing (lifetime expected credit losses)	-	-	-	(24,168)	26,427	(2,259)	(12,669)	13,274	(741)	(685)	747	-	(56,604)	58,884	(4,094)
- non-performing (credit-impaired financial assets)	-	-	-	(6,112)	(9,029)	15,141	(2,767)	(1,868)	6,190	-	(375)	409	(13,807)	(16,201)	29,367
- performing (12-month expected credit losses)	-	-	-	5,002	(2,657)	(2,345)	1,446	(823)	(802)	80	(69)	(28)	8,848	(6,777)	(4,201)
New financial assets originated	-	-	-	255,297	-	-	93,179	-	-	5,656	-	-	545,060	-	-
Amounts written-off	-	-	-	-	-	(5,794)	-	-	(1,310)	-	-	-	-	-	(7,106)
Collections and other changes	(41)	(91)	(2,789)	(121,282)	(764)	(4,325)	(91,910)	(325)	(3,842)	(952)	(33)	(23)	(341,842)	(1,544)	(17,080)
At 31 March	-	-	25,433	1,210,983	32,707	69,344	366,141	15,017	25,608	9,940	766	854	2,275,766	68,173	160,935

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6 Investment in Islamic financing contracts (continued)
6.6 Category-wise movement in stage-wise gross investment in Islamic financing contracts is as follows: (continued)

	Instalment sales			Tawarruq finance			Murabaha finance			Islamic credit card			Total		
	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)
2022															
At 1 January	13,783	4,865	47,764	1,246,334	14,700	53,127	461,596	6,694	21,727	-	-	-	1,721,713	26,259	122,618
Individual financial assets transferred to															
- under-performing (lifetime expected credit losses)	-	-	-	(31,096)	31,538	(441)	(7,477)	7,515	(29)	(495)	496	-	(39,068)	39,549	(470)
- non-performing (credit-impaired financial assets)	-	-	-	(97,467)	(9,133)	106,600	(26,152)	(3,146)	29,298	(496)	-	496	(124,115)	(12,279)	136,394
- performing (12-month expected credit losses)	-	-	-	2,652	(1,927)	(725)	1,250	(930)	(320)	-	-	-	3,902	(2,857)	(1,045)
New financial assets originated	-	-	-	1,020,987	-	-	387,672	-	-	6,832	-	-	1,415,491	-	-
Amounts written-off	-	-	-	(53)	(81)	(21,087)	(12)	(47)	(6,084)	-	-	-	(65)	(128)	(27,171)
Collections and other changes	(13,730)	(4,747)	(11,047)	(513,105)	(7,642)	(36,751)	(316,912)	(4,344)	(18,479)	-	-	-	(843,747)	(16,733)	(66,277)
At 31 December	53	118	36,717	1,628,252	27,455	100,723	499,965	5,742	26,113	5,841	496	496	2,134,111	33,811	164,049

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6 Investment in Islamic financing contracts (continued)**6.7 Maturity profile of gross investment in Islamic financing contracts and present value of investment in Islamic financing contracts is as follows:**

	31 March 2023	31 December 2022
Gross investment in Islamic financing contracts		
Within one year	1,146,813	1,060,276
From one to two years	693,004	648,086
From two to three years	388,462	369,007
From three to four years	199,570	186,002
Four to five years	77,025	68,600
	2,504,874	2,331,971
Present value of investment in Islamic financing contracts		
Within one year	858,167	789,601
From one to two years	475,630	445,960
From two to three years	250,599	239,064
From three to four years	122,101	114,980
Four to five years	45,263	40,134
	1,751,760	1,629,739

7 Cash and cash equivalents

	31 March 2023 (Unaudited)	31 December 2022 (Audited)
Cash at bank	175,543	132,207
Cash in hand	12,064	14,462
	187,607	146,669

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8 Borrowings

The Group has bank facilities from local banks for letters of credit, letters of guarantee, Murabaha and Tawarruq financings. These facilities are subject to Islamic Shariah principles. The loan facilities are denominated in Saudi Riyals and bear financial charges based on prevailing market rates. During the three-month period ended 31 March 2023, the Group made early repayments of borrowings under certain facilities and entered into a new facility agreement (Murabaha VI) with another commercial bank on favourable terms agreed under a separate agreement. There was no gain or loss on the extinguishment of the borrowings upon early repayment

	31 March 2023 (Unaudited)	31 December 2022 (Audited)
Long-term borrowings		
Murabaha facilities	754,498	581,934
Short-term borrowings		
Murabaha facilities	394,166	590,165
	1,148,664	1,172,099
Accrued finance cost	4,953	6,952
	1,153,617	1,179,051
Classification of borrowings is presented below:		
Current portion (including short-term borrowings)	619,992	777,384
Non-current portion	533,625	401,667
	1,153,617	1,179,051

The long-term Murabaha borrowings outstanding relate to UCFS, which utilizes the facilities obtained by the Group. The various facilities and their respective utilization levels are as follows:

Murabaha I

Total amount allocated to UCFS under such facility is Saudi Riyals 300.0 million. Each tranche of facility utilization is repayable in 20 quarterly installments commencing 6 months after receipt of the borrowed amount. During 2023, UCFS made early repayment of borrowings in full amounting to Saudi Riyals 181.4 million.

As at 31 March 2023, UCFS had an outstanding loan balance of Saudi Riyals 34 million (new draw down) against this facility (31 December 2022: Saudi Riyals 206.9 million).

Murabaha III

Total amount allocated to UCFS under such facility is Saudi Riyals 500.0 million. Each tranche of facility utilization is repayable in 48 monthly installments commencing 6 months from receipt of the borrowed amount. During 2023, UCFS made early repayment of borrowings in full amounting to Saudi Riyals 25.0 million (31 December 2022: Saudi Riyals 360.8 million).

Subsequently, UCFS obtained an additional amount of Saudi Riyals 8.0 million against such facility which is the outstanding loan balance as at 31 March 2023 (31 December 2022: Saudi Riyals 25.0 million).

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8 Borrowings (continued)

Murabaha IV

Total amount allocated to UCFS under such facility is Saudi Riyals 400.0 million. Each tranche of facility utilization is repayable in 16 quarterly installments commencing 6 months after receipt of the borrowed amount. As at 31 March 2023, UCFS has an outstanding loan balance of Saudi Riyals 325.0 million against this facility (31 December 2022: Saudi Riyals 350.0 million).

Murabaha V

Total amount allocated to UCFS under such facility is Saudi Riyals 250.0 million. The tenure of the borrowing facility is less than one year. As at 31 March 2023, UCFS had an outstanding loan balance of Saudi Riyals 145.0 million against this facility (31 December 2022: 250.0 million).

Murabaha VI

Total amount allocated to UCFS under such facility is Saudi Riyals 400.0 million. Each tranche of facility utilization is repayable in 20 quarterly installments commencing 3 months after receipt of the borrowed amount. As at 31 March 2023, UCFS has an outstanding loan balance of Saudi Riyals 387.5 million against this facility (31 December 2022: Saudi Riyals Nil).

All loan facilities above are denominated in Saudi Riyals and bear financial charges based on Saudi Arabian Interbank Offered Rate ("SAIBOR") ranging between SAIBOR plus 1.1% to 1.4%. The financial charges incurred during the period increased on account of increase in amount of borrowings and increase in SAIBOR since the second half of 2022. Certain credit facility agreements contain financial covenants requiring maintenance of certain financial ratios and other matters, of which the group was in compliance with at 31 March 2023.

Short term borrowings (Murabaha)

During the period ended 31 March 2023, the Group has availed short term borrowing facilities with certain local commercial banks for working capital management. Total amount available to the Group under such facilities is Saudi Riyals 525 million. Each tranche of such borrowings is repayable between 30 to 90 days from receipt of the borrowed amount. As at 31 March 2023, the Group had an outstanding balance of Saudi Riyals 249.2 million against this facility (31 December 2022: Saudi Riyals 340.2 million).

The contractual maturities of the borrowings are as follows:

	31 March 2023	31 December 2022
	(Unaudited)	(Audited)
Less than 6 months	523,289	692,799
Between 6 - 12 months	91,750	77,633
Between 1 and 2 years	183,500	155,267
Between 2 and 5 years	350,125	242,400
Above 5 years	-	4,000
	1,148,664	1,172,099

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9 Trade and other payables

	Note	31 March 2023 (Unaudited)	31 December 2022 (Audited)
Accounts payable		657,122	469,330
Advances from customers		33,802	37,504
Accruals for employees		50,043	47,986
Accrued expenses		69,063	56,013
Value added tax payable		12,775	45,773
Gift cards		23,129	22,129
Due to related parties	11	597	673
Others		11,049	10,747
		857,580	690,155

10 Segmental information

a) Operating segments

The Group is organized into business units based on factors including distribution method, targeted customers, products and geographic location.

The Group has two major operating segments namely, 'Sales and services' and 'Consumer finance'. The Board of Directors of the Group, considered as Chief Operating Decision Maker, review the internal management reports of each segment at least quarterly for the purpose of resources allocation and assessment of performance. All other operating segments that are not reportable are combined under "Others".

The following summary describes the operations of each reportable segment.

Reportable segment	Operation
Sales and services	Retail, wholesale, e-commerce, installation and repair services of electronic products, computers, smartphones and accessories, extended warranties, gift cards and installment sales.
Consumer finance	Consumer financing under Murabaha, Tawarruq and Islamic credit card financing arrangements (Tas'heel).

The segmental information was as follows:

As at and for the three-month period ended 31 March 2023 (Unaudited)

	Sales and services	Consumer finance	Others	Intersegment eliminations	Total
Revenue					
- At a point in time	1,279,364	-	-	-	1,279,364
- Over time	37,113	122,627	5,732	(6,700)	158,772
	1,316,477	122,627	5,732	(6,700)	1,438,136
Net profit	82,018	54,069	235	(51,878)	84,444
Total assets	3,289,606	1,743,105	753,722	(1,580,767)	4,205,666
Total liabilities	2,001,752	1,014,468	217,196	(252,301)	2,981,115

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10 Segmental information (continued)

For the three-month period ended 31 March 2022 (Unaudited)

	Sales and services	Consumer finance	Others	Intersegment eliminations	Total
Revenue					
- At a point in time	1,287,787	-	-	-	1,287,787
- Over time	30,506	94,609	4,640	(5,564)	124,191
	1,318,293	94,609	4,640	(5,564)	1,411,978
Net profit	43,863	53,760	176	(292)	97,507

As at 31 December 2022 (Audited)

Total assets	3,132,672	1,612,664	697,868	(1,473,104)	3,970,100
Total liabilities	1,927,513	938,095	215,363	(250,171)	2,830,800

The group management uses segment revenue and net profit to measure performance being the most relevant in evaluating the results of segments.

b) Geographical segments

The geographical information below analyses the Group's revenue, net profit, total assets and total liabilities as follows:

As at and for the three-month period ended 31 March 2023 (Unaudited)

	Kingdom of Saudi Arabia	Others	Intersegment eliminations	Total
Revenue				
- At a point in time	1,183,235	96,129	-	1,279,364
- Over time	157,769	7,703	(6,700)	158,772
	1,341,004	103,832	(6,700)	1,438,136
Net profit	192,303	(2,178)	(105,681)	84,444
Total assets	5,463,312	323,121	(1,580,767)	4,205,666
Total liabilities	2,972,207	261,209	(252,301)	2,981,115

For the three-month period ended 31 March 2022 (Unaudited)

	Kingdom of Saudi Arabia	Others	Intersegment eliminations	Total
Revenue				
- At a point in time	1,198,091	89,696	-	1,287,787
- Over time	123,370	6,385	(5,564)	124,191
	1,321,461	96,081	(5,564)	1,411,978
Net profit	205,466	(1,104)	(106,855)	97,507

As at 31 December 2022 (Audited)

	Kingdom of Saudi Arabia	Others	Intersegment eliminations	Total
Total assets	5,171,550	271,654	(1,473,104)	3,970,100
Total liabilities	2,877,080	203,891	(250,171)	2,830,800

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11 Related party transactions and balances

Related parties comprise the shareholders, directors, associated companies (representing entities which are directly or indirectly controlled by or under the significant influence of the Company's shareholders), and key management personnel. Related parties also include business entities in which certain directors or senior management have an interest (other related parties). As at 31 March 2023, Al Fozan Holding Company is the major shareholder of the Company with a shareholding of 23.7% (31 December 2022: 23.7%).

(a) *The following significant transactions were entered into by the Group with its related parties:*

Nature of transaction	Relationship	For the three-month period ended 31 March	
		2023 (Unaudited)	2022 (Unaudited)
Sales	Major shareholder	57	35
	Associated companies	99	1,383
Purchases	Associated Companies	182	139
Rental income	Associated companies	392	392
Rent expense	Associated companies	512	512
Other expenses charged by the company	Associated companies	82	86

The transactions are based on terms agreed as per the underlying agreements between the Group and the respective related parties.

(b) *Key management compensation*

	For the three-month period ended 31 March	
	2023 (Unaudited)	2022 (Unaudited)
Salaries and other employee benefits	2,912	2,812
Board of Directors' fees	26	68
	2,938	2,880

(c) *Due from related parties - associated companies and major shareholder*

	31 March 2023 (Unaudited)	31 December 2022 (Audited)
United Homeware Company	1,104	1,108
Al Fozan Holding Company	19	31
Retal Urban Development Company	7	16
	1,130	1,155

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11 Related party transactions and balances (continued)

(d) Due to related parties - associated companies

	31 March 2023	31 December 2022
	(Unaudited)	(Audited)
Madar Hardware Company	533	642
United Homeware Company	27	-
Al Yassra Trading Co.	31	31
Abdul Latif Mohammed Al Fozan	6	-
	597	673

The above balances are receivable/payable based on the terms agreed as per the signed agreements between the Group and the respective related parties and do not bear any financial charges.

12 Earnings per share

	For the three-month period ended 31 March 2023	2022
Profit for the period attributable to the shareholders of the Company	84,444	97,507

The weighted average number of shares used as the denominator are as follows:

	For the three-month period ended 31 March 2023	2022
Weighted average number of ordinary shares used in calculating basic earnings per share	75,184,219	75,184,219
Adjustment for treasury shares	4,815,781	4,815,781
Weighted average number of ordinary shares used in calculating diluted earnings per share	80,000,000	80,000,000

Earnings per share (Saudi Riyals)

Basic earnings per share	1.12	1.30
Diluted earnings per share	1.06	1.22

13 Contingencies and capital commitments

	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited)
Letters of credit and guarantee	1,066,492	1,022,943
Commitments for the acquisition of property and equipment	8,139	8,139

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14 Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, market risk and liquidity risk. The Group's overall risk management program, which is carried out by senior management under policies approved by the Board of Directors, focuses on having cost effective funding as well as managing financial risks to minimize earning volatility and provide maximum return to the shareholders.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Management and the Board of Directors are responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The risks faced by the Group and their respective mitigating strategies are summarized below:

14.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause a financial loss to the Group. The maximum exposure to credit risk is equal to the carrying amount of financial assets. As at 31 March 2023, the Group has maintained an ECL allowance of Saudi Riyals 73.2 million (31 December 2022: Saudi Riyals 72.5 million), which is considered adequate to provide for any losses which may be sustained on realization of financial assets.

The management analyses credit risk into the following categories:

Investment in Islamic financing contracts

Investment in Tawarruq and Murabaha finance contracts is generally exposed to significant credit risk. Therefore, the Group has established procedures to manage credit exposure including evaluation of customers' credit worthiness, formal credit approvals and assigning credit limits.

The overall decision to lend to a particular customer is based on the following key parameters:

- Dual credit score i.e. SIMAH and internal application scoring system;
- Minimum income level and maximum debt burden of the borrower; and
- Loan repayment history with other financial institutions sourced from SIMAH.

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14 Financial risk management (continued)

14.1 Credit risk (continued)

Investment in Islamic financing contracts (continued)

The Group does not have any significant concentration of credit risk since it enters into Islamic Financing Contracts with individual customers only. At the inception of the contract, internal credit ratings are allocated to each exposure. These credit risk grades are defined using a variety of qualitative and quantitative factors including income levels, employment segment, nationality etc.

A significant number of customers are Government sector employees. The Group generally receives repayments through variable channels such as SADAD and bank transfers. The Group has approved collection policies and procedures establishing a collection strategy to follow up with the delinquent customers. In order to monitor exposure to credit risk, reports are reviewed by the Risk and Credit Management Committee and the Board of Directors on a quarterly basis. Furthermore, the Group has also strengthened its legal department in order to be actively involved in the collection process of delinquent customers. An allowance for ECL is maintained at a level which, in the judgment of management, is adequate to provide for potential losses that can be reasonably anticipated.

The following tables sets out information about the credit quality of investment in Islamic financing contracts:

- (a) *Stage-wise analysis of gross carrying amounts as at 31 December, in comparison with internal credit risk rating assigned at the inception of the respective contracts. The amounts in the table represent gross carrying amounts.*

	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Total
31 March 2023				
<i>Internal credit risk ratings</i>				
Low risk	890,670	14,271	27,545	932,486
Medium risk	719,954	22,239	42,996	785,189
High risk	665,142	31,663	90,394	787,199
	2,275,766	68,173	160,935	2,504,874
	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Total
31 December 2022				
<i>Internal credit risk ratings</i>				
Low risk	829,199	8,413	28,442	866,054
Medium risk	677,160	10,989	43,467	731,616
High risk	627,751	14,410	92,140	734,301
	2,134,110	33,812	164,049	2,331,971

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14 Financial risk management (continued)

14.1 Credit risk (continued)

Investment in Islamic financing contracts (continued)

(b) *Ageing analysis of net investment in Islamic financing contracts based on due balances according to the respective contractual repayment schedules:*

	Installment sales receivable		Tawarruq finance		Murabaha finance		Islamic Credit Card		Total	
	31		31		31		31		31	
	31 March 2023	December 2022	31 March 2023	December 2022	31 March 2023	December 2022	31 March 2023	December 2022	31 March 2023	December 2022
Not past due	-	41	1,176,208	1,067,030	353,461	368,275	10,044	5,652	1,539,713	1,440,998
Past due 1-30 days	41	-	40,039	35,760	15,305	11,020	308	189	55,693	46,969
Past due 31-90 days	-	90	31,762	19,074	14,463	4,496	412	496	46,637	24,156
Past due 91-180 days	90	-	20,215	34,893	5,518	9,421	354	496	26,177	44,810
Past due 181-364 days	-	-	38,279	24,580	11,153	8,350	442	-	49,874	32,930
Over 365 days	25,302	28,223	6,531	8,565	1,833	3,088	-	-	33,666	39,876
	25,433	28,354	1,313,034	1,189,902	401,733	404,650	11,560	6,833	1,751,760	1,629,739
Less: Impairment for Islamic financing contracts	(25,363)	(25,790)	(40,686)	(40,064)	(6,614)	(6,326)	(540)	(365)	(73,203)	(72,545)
Net investment in Islamic financing contracts	70	2,564	1,272,348	1,149,838	395,119	398,324	11,020	6,468	1,678,557	1,557,194

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14 Financial risk management (continued)

14.1 Credit risk (continued)

c) Changes in assumptions including incorporation of forward-looking information

During the three-month period ended 31 March 2023, there have been no significant changes to the underlying methodology used for determination of ECL, including the weight assigned to each scenario i.e. upturn, baseline and downturn scenarios.

Management updates the inputs with respect to macroeconomic factors to their ECL model on a quarterly basis based on the latest available information, which contributes to determination of the overall scalar factor used. As at 31 March 2023, the crude oil price incorporated in the upturn, baseline and downturn scenarios was United Standard Dollars ("USD") 89.1, USD 80.6 and USD 63.4 per barrel respectively (As at 31 December 2022, the crude oil price incorporated in the upturn, baseline and downturn scenarios was United Standard Dollars ("USD") 97.5, USD 88.2 and USD 69.7 per barrel respectively), which contributed to determination of the overall scalar factor used. Furthermore, changes in unemployment statistics are also used in determination of the overall scalar factor used to incorporate the impact of forward-looking information to the ECL computation. As at 31 March 2023, the unemployment factor incorporated in the calculation of changes in unemployment statistics was 4.8%, which reduced from 5.8% as at 31 December 2022. This did not have a significant impact on the net impairment losses / ECL allowance as of and for the three-month period ended 31 March 2023.

d) Sensitivity analysis:

An increase or decrease of 10% in the oil prices scenario weightings with all other variables held constant will result in an increase/decrease of Saudi Riyals 3.4 million, in the ECL allowance (31 December 2022: Saudi Riyals 4.1 million).

An increase or decrease of 10% in the unemployment scenario weightings with all other variables held constant will result in an increase of Saudi Riyals 0.7 million, in the ECL allowance (31 December 2022: Saudi Riyals 0.5 million).

An increase or decrease of 10% in the loss rates (PDs and LGDs) assuming macro-economic factors remain the same, will result in an increase of Saudi Riyals 8.4 million or a decrease of Saudi Riyals 8.1 million respectively, in the ECL allowance (31 December 2022: an increase of Saudi Riyals 8.2 million or a decrease of Saudi Riyals 7.9 million, respectively in the ECL allowance).

Trade and other receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

The average credit period on sales of goods is 30-90 days. No interest is charged on trade receivables. Before accepting any new customer, the Group has a credit policy set in place to assess the potential customer's credit quality and defines the credit limits. These procedures are reviewed and updated on an ongoing basis. At 31 March 2023, 59% of trade receivables were due from 1 customer (2022: 60% from 1 customer). Management believes that this concentration of credit risk is mitigated as the customer has established track record of regular and timely payments.

The expected loss rates are based on the payment profiles of sales over a period of 18 months before 31 March 2023 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the inflation rate to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. The Group does not hold any collateral as security.

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14 Financial risk management (continued)

14.1 Credit risk (continued)

The Group considers any trade receivables overdue for more than a year to be in default and are accordingly fully provided for. The loss rates for the other ageing buckets are not significant. The identified ECL on trade and other receivables is trivial and accordingly, no ECL has been recognised by the Group.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 365 days past due. Where receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in the profit or loss.

The other classes within trade and other receivables do not contain impaired assets and are also not exposed to significant credit risk. The maximum exposure to credit risk at reporting date is the carrying amount of each receivable.

Net investment in finance lease

Net investment in finance lease is stated at amortised cost. The group uses simplified approach under IFRS 9 to calculate the ECL allowance. At 31 March 2023 and 31 December 2022, the ECL allowance on net investment in finance lease was immaterial.

Cash and cash equivalents

The Group uses "low credit risk" practical expedient for the cash and cash equivalents with the assumption that the credit risk on such financial instruments has not increased significantly since initial recognition, and therefore the ECL is estimated at an amount equal to the expected credit losses for a period of 12 months.

These are placed with banks having minimum credit ratings of BBB or better, and therefore are not subject to significant credit risk. The stated rating is as per the global bank ratings by Moody's Investors Service. Management does not expect any losses from non-performance by these counterparties. At 31 March 2022 and 31 December 2022, the ECL allowance on cash at bank was immaterial.

14.2 Profit rate risk

Profit rate risk is the uncertainty of future earnings and expenses resulting from fluctuations in profit rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to profit rate adjustment within a specified period. The most important source of such risk is the Group's Islamic financing activities and long-term borrowings. As at the statement of financial position date, the Group has profit bearing financial assets of Saudi Riyals 1,728.3 million (31 December 2022: Saudi Riyals 1,565.1 million). However, the profit rates have been agreed with the respective customers upon inception of the Islamic financing contracts. Further, the Group also has variable profit bearing financial liabilities of Saudi Riyals 1,153.6 million (31 December 2022: Saudi Riyals 1,1179.1 million) and had the profit rate varied by 1% with all the other variables held constant, total comprehensive income /loss for the year would have been approximately Saudi Riyals 11.5 million (31 December 2022: Saudi Riyals 12.6 million) higher / lower, as a result of lower / higher finance cost on variable rate borrowings.

The Company's financial assets and liabilities are not significantly exposed to other elements of market risk including fair value risk, price risk and currency risk.

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14 Financial risk management (continued)

14.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters. In addition, the Group has access to credit facilities as made available by the shareholder.

Total unused credit facilities available to the Group as at 31 March 2023 were approximately Saudi Riyals 1,296.3 million (31 December 2022: Saudi Riyals 1,947.9 million).

Cash flow forecasting is performed by the management which monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits on any of its borrowing facilities. Such cash flow forecasts consider, among other items, that the Group has pre-agreed fixed profit rates from its customers under Murabaha and Tawarruq financing contracts, whereas, its borrowings from commercial banks are based on SAIBOR based variable finance costs. The maturity profile of financial assets and financial liabilities demonstrates a significant head room of financial assets over financial liabilities. Management also believes that any change in the variable finance costs of their borrowings would not result in the Group facing any liquidity issues. The cash flows of the Group, during the three-month period ended 31 March 2023, have been principally consistent with the underlying budgeted forecasts and there are no developments which might indicate towards any potential liquidity concerns in the near future.

15 Restatement

During the three-month period ended 31 March 2023, the Group identified that it had not separately presented income from Islamic financing contracts for the three-month period ended 31 March 2022, on the condensed consolidated interim statement of profit or loss and other comprehensive income in accordance with the requirements of the applicable financial reporting framework. Such error was corrected and income from Islamic financing contracts has been separately presented on the condensed consolidated interim statement of profit or loss and other comprehensive income. Such restatement has had no impact on the total revenue, gross profit, profit before zakat and income tax, net profit for the three-month period or basic and diluted earnings per share for the three-month ended 31 March 2022, the condensed consolidated interim statement of financial position as at 31 December 2022 and the condensed consolidated interim statements of changes in equity and cash flows for the three-month period ended 31 March 2022.

16 Subsequent events

Subsequent to the period ended 31 March 2023, the Board of Directors of the Group on, 30 April 2023, resolved to discontinue the Group's plans to expand in Egypt. The potential financial impact arising from impairment of non-financial assets and certain committed costs is estimated to be around Saudi Riyals 38 million. Management considers this to be a non-adjusting event for the purpose of the condensed consolidated interim financial information for the three-month period ended 31 March 2023 in accordance with the requirements of the applicable financial reporting framework.