SAUDI HOME LOANS COMPANY
(A Saudi Joint Stock Company)
(Formerly A Saudi Closed Joint Stock Company

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

SAUDI HOME LOANS COMPANY
(A Saudi Joint Stock Company)

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

INDEX

Deloitte and Touche & Co.
Chartered Accountants
Jeddah branch office
License #323/11/96/1
Date 24/4/1419
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Saudi Home Loans Company
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2022. These matters were 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 these matters.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance As at 31 December 2022, the Company's exposure to investments in finance leases and Murabaha receivables was SR 4.123 billion which represented 95.3% of the total assets. The expected credit loss ("ECL") allowance was SR 32 million as of that date.	We obtained an understanding of the relevant business process, the policy for impairment and credit losses, the estimation process of determining impairment allowances for investment in finance leases and Murabaha receivables and the ECL methodology and evaluated the design and implementation of relevant controls within these processes.

INDEPENDENT AUDITOR'S REPORT - Continued

To the Shareholders
Saudi Home Loans Company
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
The Company recognizes an allowance for ECL at an amount equal to 12-month ECL (Stage 1) or lifetime ECL (Stage 2). A loss allowance for lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. A financial instrument which is credit impaired is classified as stage 3 and a lifetime ECL is recognized against such financial instrument ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate. The Company employs statistical models for ECL calculations and the key variables used in these calculations are probability of default (PD), loss given default (LGD); and exposure at default (EAD), which are defined in Note 3 to the financial statements. The exposure is assessed individually for the significant increase in credit risk ("SICR"), for assessing credit impaired exposures and measurement of ECL. This requires management to capture all qualitative and quantitative reasonable and supportable information while assessing SICR, or while assessing credit-impaired criteria for the exposure. The measurement of ECL amounts is carried out by the ECL model with limited manual intervention, however, it is important that model is validated for use at the year-end. The Company utilized an external party to perform a validation of the model during the year . The new Saudi Central Bank ("SAMA") rules governing credit risk exposure classification and provisioning has been incorporated in the Company's measurement of ECL.	We assessed and evaluated the design and implementation of manual controls over: • the review and approval of ECL model's output; and • the recognition and measurement of impairment allowances We also assessed the following: • The staging and Significant Increase in Credit Risk (SICR) policy and definition of default against the requirements of IFRSs and SAMA guidelines; • The rationale for exposures whose classification had been changed from Stage 3 to Stage 2 and those whose classification had been changed from Stage 2 to Stage 1;. • The methodology to determine PD, LGD and EAD • Whether the risk component models had been validated and/or re-calibrated • The macroeconomic scenarios weights and indicators used • The ECL computation of a sample of exposures. We tested the ECL model to determine if it was in compliance with the requirements of IFRSs that are endorsed in the Kingdom of Saudi Arabia and the completeness and accuracy of the information used in the model. We also • assessed the skills, competence, independence and objectivity of the external expert engaged for external validation of the ECL model; and • reviewed the terms of their engagement letter with the Company to determine if the scope of their work was sufficient for audit purposes. We considered the process of this external validation of the ECL model and its impact on the results of the impairment estimate.

INDEPENDENT AUDITOR'S REPORT - Continued

To the Shareholders
Saudi Home Loans Company
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
The audit of ECL allowance against investments in finance leases and Murabaha receivables is considered to be a key audit matter because of the size of these amounts and the significance and complexity of the estimates made and judgments applied by management in the Expected Credit Loss models. These include, inter alia, the classification of exposures into stages. Refer to Note 3 to the financial statements for the accounting policy for the impairment of financial assets, Notes 10 and 11 for the disclosure of impairment and note 30 for credit risk disclosure and the key assumptions and factors considered in determination of staging of exposure.	We utilised our internal specialists to assist us in reviewing the ECL model calculations and assumptions and evaluating related inputs . We assessed the disclosures in the financial statements relating to this matter against the requirements of IFRS that are endorsed in the Kingdom of Saudi Arabia.

Other Information

Other information consists of the information included in the 2022 annual Board of Directors report and the Company's 2022 annual report, other than the financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information in its 2022 annual Board of Directors report and Company's 2022 annual report. The final 2022 annual Board of Directors report and Company's 2022 annual report is expected to be made available to us after the date of our auditor's report

Our opinion on the financial statements does not cover the other information and we do 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, when it becomes available, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read other information, If we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Other Matter

The financial statements of the Company for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on March 6, 2022.

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 IFRSs that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Byelaws, 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.

INDEPENDENT AUDITOR'S REPORT - Continued

To the Shareholders
Saudi Home Loans Company
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional 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 - Continued

To the Shareholders
Saudi Home Loans Company
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

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, actions taken to eliminate threats or safeguards applied.

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.

Deloitte and Touche & Co.
Chartered Accountants

Mazen A. Al-Omari
Certified Public Accountant
License No. 480

13 Shaban 1444H
5 March 2023

SAUDI HOME LOANS COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022
(Amounts in Saudi Riyals unless otherwise stated)

	Notes	2022	2021
ASSETS			
Cash and cash equivalents	5 & 6	**42,847,283**	183,984,147
Due from a related party	6	**593,004**	739,733
Prepaid expenses and other assets	7	**7,675,313**	6,605,602
Other receivables, net	8	**31,612,969**	36,879,639
Deferred origination fees	12	**14,375,181**	18,204,844
Investments in finance leases, net	10	**3,814,705,798**	4,013,303,094
Murabaha receivables, net	11	**308,114,330**	74,786,137
Positive fair value of derivative financial instrument	6 & 14	**31,132,519**	-
Investments held at fair value through other comprehensive income ("FVOCI")	9	**892,850**	892,850
Other real estate, net	13	**21,983,608**	8,636,219
Right-of-use asset		**5,409,480**	7,015,918
Property and equipment, net		**3,346,654**	4,137,340
Intangible assets, net		**2,023,276**	2,896,071
Deferred tax	19	**1,917,078**	4,402,330
Restricted bank balances	5	**42,200,000**	42,200,000
TOTAL ASSETS		**4,328,829,343**	4,404,683,924
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accounts payable and other liabilities	16	**12,108,948**	7,417,401
Accrued expenses and other liabilities	17	**18,990,966**	11,666,926
Advance lease rentals		**9,535,190**	7,969,186
Lease liability		**5,506,339**	6,753,491
Provision for zakat and income tax	18	**12,969,728**	19,269,864
Tawarruq financing facilities	20	**2,551,268,518**	2,653,074,515
End of service benefits liability	21	**9,731,569**	8,598,413
Total liabilities		**2,620,111,258**	2,714,749,796
Shareholders' equity			
Share capital	22	**1,000,000,000**	1,000,000,000
Statutory reserve	23	**126,068,592**	116,479,630
Other reserves		**2,123,908**	1,829,576
Retained earnings		**580,525,585**	571,624,922
Total shareholders' equity		**1,708,718,085**	1,689,934,128
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**4,328,829,343**	4,404,683,924
COMMITMENTS AND CONTINGENCIES	33		

These financial statements were authorised for issue by the Board of Directors and were signed on their behalf by:

Chairman	**Chief Executive Officer**	**Chief Financial Officer**

The accompanying notes from 1 to 37 form an integral part of these financial statements

SAUDI HOME LOANS COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022
(Amounts in Saudi Riyals unless otherwise stated)

	Notes	2022	2021
Finance income	25	**261,855,727**	277,407,631
Service fees, net	15	**5,607,965**	6,166,068
Application and evaluation fee income		**1,730,008**	4,457,133
Asset sale income		**309,556**	6,189,261
Origination expenses	12	**(3,829,663)**	(3,847,967)
Total revenue		**265,673,593**	290,372,126
Fair value gain on derivative financial instrument	14	**31,132,519**	-
Other income		**2,327,101**	1,014,565
Total Operating income		**299,133,213**	291,386,691
Direct cost	26	**(24,910,882)**	(27,592,085)
Finance charges	20	**(106,706,161)**	(74,077,401)
General and administrative expenses	27	**(85,162,228)**	(74,016,926)
Impairment allowances and write offs	30	**21,457,639**	8,839,954
Selling and marketing expenses	28	**(5,869,204)**	(5,528,785)
Total operating expenses		(201,190,836)	(172,375,243)
Net income before zakat and income tax		**97,942,377**	119,011,448
Zakat and income tax	18	**(10,434,505)**	(15,380,841)
Income tax refund for previous periods	18	**10,867,005**	-
Deferred tax	19	**(2,485,252)**	(435,008)
Net income for the year		**95,889,625**	103,195,599
Other comprehensive income			
Item that cannot be reclassified to statement of Profit or loss in subsequent periods			
Actuarial gains on end of service benefits	21	**294,332**	672,116
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**96,183,957**	103,867,715
Basic and diluted earnings per share (Saudi Riyal)	29	**0.96**	1.03

These financial statements were authorised for issue by the Board of Directors and were signed on their behalf by:

Chairman	**Chief Executive Officer**	**Chief Financial Officer**

The accompanying notes from 1 to 37 form an integral part of these financial statements

SAUDI HOME LOANS COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022
(Amounts in Saudi Riyals unless otherwise stated)

		For the year ended 31 December 2022				
	Notes	Share capital	Statutory reserve	Other reserve	Retained earnings	Total equity
Balance as at 1 January 2022		1,000,000,000	116,479,630	1,829,576	571,624,922	1,689,934,128
Net income for the year		-	-	-	95,889,625	95,889,625
Actuarial gains on end of service benefits	21	-	-	294,332	-	294,332
Total comprehensive income for the year		-	-	294,332	95,889,625	96,183,957
Transfer to statutory reserve	23	-	9,588,962	-	(9,588,962)	-
Dividends paid	24	-	-	-	(77,400,000)	(77,400,000)
Balance as at 31 December 2022		**1,000,000,000**	**126,068,592**	**2,123,908**	**580,525,585**	**1,708,718,085**

		For the year ended 31 December 2021				
	Note	Share capital	Statutory reserve	Other reserve	Retained earnings	Total equity
Balance as at 1 January 2021		1,000,000,000	106,160,070	1,157,460	478,748,883	1,586,066,413
Net income for the year		-	-	-	103,195,599	103,195,599
Actuarial gains on end of service benefits	21	-	-	672,116	-	672,116
Total comprehensive income for the year		-	-	672,116	103,195,599	103,867,715
Transfer to statutory reserve	23	-	10,319,560	-	(10,319,560)	-
Balance as at 31 December 2021		1,000,000,000	116,479,630	1,829,576	571,624,922	1,689,934,128

These financial statements were authorised for issue by the Board of Directors and were signed on their behalf by:

Chairman | Chief Executive Officer | **Chief Financial Officer**

The accompanying notes from 1 to 37 form an integral part of these financial statements

SAUDI HOME LOANS COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022
(Amounts in Saudi Riyals unless otherwise stated)

	2022	2021
OPERATING ACTIVITIES		
Net income before zakat and income tax	**97,942,377**	119,011,448
Adjustments to reconcile net income to net cash generated from operating activities:		
Depreciation and amortisation	**4,550,158**	4,726,167
Amortisation of deferred origination fees	**3,829,663**	3,847,967
Fair value gain on derivative financial instrument	**(31,132,519)**	-
Impairment loss on other real estate assets	-	62,163
Impairment allowances and write offs	**(21,457,639)**	(8,839,954)
Allowance against receivable under litigation	-	-
Insurance claims receivable written off	-	-
Provision for end of service benefits	**1,835,647**	1,707,524
Amortisation of lease liability	**339,739**	191,085
Finance charges	**106,706,161**	74,077,401
	162,613,587	194,783,801
Net (increase)/decrease in operating assets:		
Due from a related party	**146,729**	(106,356)
Prepaid expenses and other assets	**772,346**	5,561,282
Other receivables	**1,287,981**	9,208,680
Investments in finance lease	**211,620,763**	204,220,990
Murabaha receivables	**(234,262,721)**	(74,857,128)
Net increase/(decrease) in operating liabilities:		
Accounts payable and other liabilities	**4,691,547**	(688,977)
Accrued expenses and other liabilities	**7,324,040**	2,341,210
Advance lease rentals	**1,566,004**	3,572,312
Net cash from operations	**155,760,276**	344,035,814
Zakat and income tax paid	**(18,576,698)**	(20,755,772))
Income tax refund for previous periods	**10,867,005**	-
End of service benefits paid	**(408,159)**	(808,795)
Deferred origination fees paid	-	(25,210)
Net cash generated from operating activities	**147,642,424**	322,446,037
INVESTING ACTIVITIES		
Purchase of property and equipment	**(270,211)**	(84,073)
Disposal of property and equipment	**11,428**	-
Purchase of intangible assets	**(90,307)**	(1,339,487)
Net cash used in investing activities	**(349,090)**	(1,423,560)
FINANCING ACTIVITIES		
Additions in Tawarruq financing facilities	**150,000,000**	200,000,000
Repayment of Tawarruq financing facilities	**(254,875,200)**	(358,814,404)
Finance charges paid	**(103,636,958)**	(82,072,259)
Lease liability paid – principal portion	**(2,178,301)**	(2,862,555)
Lease liability paid – interest portion	**(339,739)**	(191,085)
Dividends paid	**(77,400,000)**	-
Net cash used in financing activities	**(288,430,198)**	(243,940,303)
Net change in cash and cash equivalents (see note 35 for non-cash changes)	**(141,136,864)**	77,082,174
Cash and cash equivalents at beginning of the year	**183,984,147**	106,901,973
Cash and cash equivalents at end of the year	**42,847,283**	183,984,147

These financial statements were authorised for issue by the Board of Directors and were signed on their behalf by:

Chairman **Chief Executive Officer** **Chief Financial Officer**

The accompanying notes from 1 to 37 form an integral part of these financial statements

(Amounts in Saudi Riyals unless otherwise stated)

1. THE COMPANY AND PRINCIPAL ACTIVITIES

Saudi Home Loans Company (the "Company") is a Saudi joint stock company registered in Riyadh, Kingdom of Saudi Arabia under the commercial registration no. 1010241934 dated 22 Dhul Hijjah 1428H (corresponding to 1 January 2008), unified number (7001540165). The Company is regulated, controlled and licensed by Saudi Central Bank ("SAMA") license no: 14/A SH/201403 dated 27 Rabi Al-Thani 1435H (corresponding to 27 February 2014) which will expire on 25 Rabi'II 1445H (corresponding to 9 November 2023). The address of the Company is as follows:

Saudi Home Loans Company
P.O. Box 27072
Riyadh 11417
Kingdom of Saudi Arabia

The principal activities of the Company are to finance the purchase of houses and residential land and apartments, financing of real estate properties and financing the establishment of commercial and industrial projects.

On 20 April 2022, the trading of the 30% listed share capital of the Company started on Saudi Stock Exchange ("Tadawul"). The Company's legal status also changed from Closed Joint Stock Company to Joint Stock Company.

On 20 December 2022, the Company received No Objection letter from SAMA allowing Company to amend its articles of association and on 21 December 2022, the Company also received No Objection letter from SAMA on allowing the Company to offer consumer financing products. Subsequent to year end, on 17 January 2023, the Company also received No Objection letter from SAMA on changing the name of the Company to SHL Finance Company.

The Ministry of Commerce and Investment (MC) of the Kingdom of Saudi Arabia has issued new Regulations for Companies, effective 19 January 2023 with a grace period of two years for implementations. The management of the Company is in the process of assessing the potential impact of implementations of the new regulations on the Company, if any, and expects to be fully compliant with the new regulations by the end of the grace period which is early 17 January 2025.

Branches of the Company

As at 31 December, 2022 and 2021, the Company operated through the following branches. The accompanying financial statements include the assets, liabilities and results of these branches. The details of these branches are as follows:

Branch	CR Number	Date
Jeddah Branch	4030289627	22/08/1437 H
Dammam Branch	2050109572	22/08/1437 H

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Amended and revised International Financial Reporting Standards ("IFRSs") Standards that are effective for the current period

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 2022, have been adopted in these financial statements.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

(Amounts in Saudi Riyals unless otherwise stated)

New and revised IFRS	Summary
Reference to the Conceptual Framework (Amendments to IFRS 3)	The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.
Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)	The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.
Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
Annual Improvements to IFRS Standards 2018–2020	Makes amendments to the following standards: IFRS 1 – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs. IFRS 9 – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. IFRS 16 – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. IAS 41 – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.
COVID 19 related rent concessions	COVID 19 related rent concessions beyond June 30, 2021 (Amendments to IFRS 16) extending, by one year, the May 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

(Amounts in Saudi Riyals unless otherwise stated)

2.2 New SAMA rules governing credit risk exposure classification and provisioning effective from 1 January 2022

During 2020, SAMA issued rules governing credit risk exposure classification and provisioning. These rules set out the minimum requirements on credit risk exposure classification and provisioning. These rules shall be applicable to all finance companies licensed pursuant to finance companies control law effective from 1 July 2021. In a subsequent communication, SAMA deferred implementation of the rules to 1 January 2022, except for certain rules (relating to write offs) to be implemented on or before 31 December 2023.

Moreover, the new rules require the Company to write off any exposures on mortgages (including retail, micro and small enterprises mortgages) and corporate exposures (including medium corporates as per MSME definition by SAMA) before 1,080 days from the date they are classified as Stage 3 exposures. The Company has implemented policy to write off such exposures on 1,080th day.

The effect of the implementation of the above rule resulted in increase in allowance for expected credit losses and decrease in the profit for the year of SR 5 million.

During the year, SAMA has also required Company to forego any exposures on contracts signed on or after 1 October 2018 and where the customer has either died or suffered with permanent total disability. Consequentially, the Company wrote off SR 1.88 million directly to the statement of profit or loss and SR 3.14 million against the allowance recognized previously.

2.2 New and revised IFRSs in issue but not yet effective and not early adopted

At the date of authorization of these financial statements, the Company has not applied the following new and revised IFRSs Standards that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023.	Immediately available
IFRS 17 Insurance Contracts and its amendments requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. Amends to IFRS 17 address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017.	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2 (Disclosure of Accounting Policies) requires that an entity disclose its material accounting policies, instead of its significant accounting policies.	January 1, 2023
Amendments to IAS 8 (Definition of Accounting Estimates) replaces the definition of a change in accounting estimates with a definition of accounting estimates	January 1, 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) clarifies that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.	January 1, 2023

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 1 - Classification of Liabilities as Current or Non-current aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.	January 1, 2024
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.	January 1, 2024
Non-current Liabilities with Covenants (Amendments to IAS 1) The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.	January 1, 2024
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Postponed

The management is in the process of assessing the potential financial impact of the application of the above-mentioned standards and amendments and do not expect that the adoption of the amendments and standards listed above will have a material impact on the financial statements of the Company in future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements issued by the Saudi Organisation for Chartered and Professional Accountants (collectively referred to as "IFRSs").

Basis of measurement and presentation

These financial statements are prepared under the historical cost convention using the accrual basis of accounting and the going concern assumption, except for the following:

Items	Measurement bases
Employee benefits liabilities	Present value of the defined benefit obligation, using actuarial present value calculations based on projected unit credit method as explained in note 03.
Investment classified as fair value through other comprehensive income ("FVOCI")	The investment is carried at cost.
Derivative financial instrument	These are valued using valuation techniques with market observable inputs at end of each reporting period.
Other real estate properties	These are carried at lower of outstanding receivables net of expected credit losses from customer at amortized cost and fair value of the property.

Investment classified as FVOCI is measured at cost as measurement of fair value would entail undue cost and efforts.

Functional and presentation currency

These financial statements are presented in Saudi Riyals, which is the functional and presentation currency of the Company. The figures in these financial statements are rounded to the nearest Saudi Riyals.

The significant accounting policies adopted for the preparation of these financial statements are set out below. These policies are consistent with those applied to the previous financial year ended 31 December 2021 except for those disclosed in note 2.

A. Financial instruments

Initial recognition and classification of financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

On initial recognition, a financial asset is classified as measured at:
- amortized cost,
- FVOCI or
- fair value through profit or loss ("FVTPL").

As at 31 December 2022 and 2021, the Company has debt instruments (Murabaha receivables) at amortised cost, finance lease receivables at amortised cost (Ijarah receivables), equity instrument at FVOCI, derivative financial instruments at FVTPL and other financial assets at amortised cost.
Subsequent measurement
Financial assets are not reclassified subsequent to their initial recognition, except if and in the period the Company changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it meets both of the following conditions:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the instrument's fair value in OCI (designated as FVTOCI – equity investment). This election is made on an instrument-by-instrument basis.

By default, all other financial assets that are not classified as described above are measured at FVTPL.

On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment

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

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

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

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

Assessments whether contractual cash flows are solely payments of principal and interest

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

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

Financial assets including cash and bank balances, due from a related party, other receivables, investment in finance leases and Murabaha receivables are measured at amortized cost applying the effective interest method.

Net investment in finance lease

Net investment in finance lease are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are measured at amortised cost applying the effective interest method. Other financial assets include cash and bank balances, due from a related party, other receivables and Murabaha receivables are also measured on the same basis as net investment in finance lease.

Effective Interest Method ("EIR")
The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

Classification of financial liabilities

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Classification, subsequent measurement and gains and losses
Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if
1) it is contingent consideration of an acquirer in a business combination
2) classified as held for trading, or
3) it is a derivative or it is designated as at FVTPL on initial recognition.

Financial liabilities at amortized are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.
Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on de-recognition is also recognized in profit or loss and other comprehensive income.

The Company classifies all its financial liabilities as measured at amortized cost. Amortized cost is calculated using EIR method.

Significant financial liabilities of the Company include accounts payable, lease liabilities and Tawarruq financing facilities (borrowings). These financial liabilities are initially measured at fair value and subsequently at amortized cost using the effective interest method.

Company as a lessor

Net investments in finance lease/Ijara receivables

The Company enters into lease agreements as a lessor, the activities of the Company include finance leasing of real estate properties.

Leases for which the Company is a lessor are classified as finance leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease.

Investments in finance lease represents net investment in ijarah leasing contracts which are receivable from customers on account of finance leases. Ijarah is an agreement whereby the Company, acting as a lessor, purchases an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

All leased properties subject to finance lease agreements are under the Company's name, except for those where the ownership has been transferred to Kingdom Instalment Company (an ex-shareholder) as a custodian in accordance with the custodian agreement. The contract signed with customer represents an Ijarah contract with irrevocable promises to transfer the ownership, where the legal title of the asset will be passed to the lessee once all Ijarah instalments are settled.

Gross investments in finance lease include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases.

Recognition

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognised at the commencement of the lease term are determined.

The commencement of the lease is considered to be the date when the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases. Gross investment in finance lease represents the gross lease payments receivable by the Company, and the net investment represents the present value of these lease payments, discounted at interest rate implicit in the lease. The difference between the gross investment and unearned finance income represents net investment which is stated net of allowance for impairment loss.

Subsequent to initial recognition, the Company regularly reviews the estimated credit losses and applies the impairment requirements of IFRS 9, recognizing an allowance for expected credit losses on the lease receivables.

The Company accounts for a modification to a finance lease as a separate lease if both:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a modification to a finance lease that is not accounted for as a separate lease, the Company accounts for the modification as follows:

- if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the Company:
    - account for the lease modification as a new lease from the effective date of the modification; and
    - measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification;
- otherwise, the Company applies the requirements of IFRS 9 explained in following paragraphs.

Murabaha receivables

Murabaha is an agreement whereby the Company sells to a customer 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. Murabaha receivables represents financial assets which is accounted for at amortised cost using the EIR method explained above. Modification and derecognition policies explained in following paragraphs apply on Murabaha receivables.

Company as a lessee

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

Right of use assets
The Company applies cost model, and measures right of use asset at cost:
a. less any accumulated depreciation and any accumulated impairment losses; and
b. adjusted for any re-measurement of the lease liability for lease modifications.

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

Subsequent to the commencement date, the Company measures the lease liability by:
a) Increasing the carrying amount to reflect interest on the lease liability;
b) Reducing the carrying amount to reflect the lease payments made; and
c) Re-measuring the carrying amount to reflect any re-assessment or lease modification.

Derecognition

i. **Financial assets**

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

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. Financial assets originated by the Company and subsequently disposed-off to third parties are derecognised when the rights to receive the contractual cash flows and substantially all of the risks and rewards of ownership of the financial asset are transferred.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of

a. the consideration received (including any new asset obtained less any new liability assumed); and
b. any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

ii. Financial liabilities

The Company derecognizes financial liabilities when and only when its contractual obligations are discharged or cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

The Company also derecognizes a financial liability when its terms are modified and the cash flows under the modified terms are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least ten per cent different from the discounted present value of the remaining cash flows of the original financial. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss and other comprehensive income.

Modification of financial assets and financial liabilities

i. 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 with the difference recognized as a derecognition gain or loss 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 de-recognition 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 profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

For net investment in finance leases where the interest rate is variable, the Company determines the interest rate implicit in the lease using the revised contractual payments due from the customer from the effective date of change in interest rate, the outstanding principal and outstanding term of the contract and uses the revised interest rate implicit in the lease thus determined, in recognizing the interest income over the remaining period.

ii. Financial liabilities

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

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For financial liabilities, the Company considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent.

Expected Credit Losses ("ECL")

The Company recognizes provision for ECL on the following financial instruments:

- Net investments in finance lease;
- Murabaha receivables; and
- Insurance claims receivable on non-performing deceased-case leases.

Exposure to credit risk on other financial assets is not significant for the Company. No expected credit loss is recognized on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for other financial instruments on which credit risk has not increased significantly since their initial recognition where 12- month ECL is recognized.

12-month ECL are the portions of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. They are measured as follows:
- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Restructured financial assets or net investment in finance leases

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and

- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate/internal rate of return of the existing financial asset, respectively.

Credit-impaired financial assets and net investment in finance leases

At each reporting date, the Company assesses whether investments in finance lease, Murabaha receivables and other financial assets carried at amortized cost are credit-impaired. investments in finance lease, Murabaha receivables and other financial assets is 'credit-impaired' or there has been a "significant increase in credit risk" ("SICR") when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Any exposure for which there is a SICR since origination. The Company clearly defines what it considers to be SICR. Such indicators considered by SHL include:
- The borrower has a moderate risk of default;
- The payments are past due by more than 30 days;
- The borrower has a weak or deficient capacity to meet its contractual cash flow obligations in the near term; and
- Adverse changes in economic and business conditions in the longer term are more likely than not to reduce the borrower's ability to fulfil its obligations.
- The borrower has requested rescheduling of repayments as a financial support

Evidence that an investments in finance lease, Murabaha receivables and other financial assets is credit-impaired includes the following observable data:
- The borrower has a high risk of default or has defaulted;
- The borrower has requested rescheduling of repayments as a financial support twice, or more;
- Past due more than 90 days;
- The borrower is deceased;
- The account is considered as fraudulent;
- The borrower has an inadequate capacity to meet contractual cash flow obligations due to financial difficulty in the near term;
- The collection of principals, commission income highly questionable and improbable; and
- Adverse changes in economic and business conditions in the near and longer term will only further negatively impact borrower's ability to fulfil obligations.

Investments in finance lease, Murabaha receivables and other financial assets that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. Refer to Note 30 for further details on significant increase in credit risk and definition of default.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position for financial assets measured at amortized cost and net investment in finance leases: as a deduction from the gross carrying amount of the assets. Movement in the loss allowance during the year is presented in statement of profit or loss and other comprehensive income where the loss allowance relates to financial assets, including debt instrument at amortised cost.

Write-off

Net investments in finance lease and Murabaha receivables are written off (either partially or in full) when:

- there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation;
- lease receivables are written off to the extent recoverable when the receivables remain uncollected for 1,080 days or more after their classification as stage 3 customers,

whichever is earlier.

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment charge for credit losses.

Collateral valuation

To mitigate its credit risks on net investment in finance lease and financial assets at amortised cost, the Company seeks to use collateral, where possible. The collateral is primarily in the form of real estate. Collateral, unless repossessed, is not recorded on the Company's statement of financial position.

However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed annually if classified in stage 3.

To the extent possible, the Company uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued by independent valuers appointed by the Company.

Collateral repossessed

The Company, in the ordinary course of business, acquires / retains certain real estate against settlement of the investment in finance lease. Such real estate is initially measured at lower of fair of the property at repossession date and sum of outstanding principal and accrued profit (capped at profit for 90 days past last payment due date). No depreciation is charged on such real estate and the fair value is assesses annually.

Subsequent to initial recognition, any subsequent write down to fair value, are charged to the statement of profit of loss and comprehensive income. Any subsequent revaluation gain in the fair value of these assets to the extent this does not exceed the cumulative write down is recognised in the statement of profit or loss and other comprehensive income. Gains or losses on disposal of these properties are recognised in the statement of profit or loss and other comprehensive income.

Properties purchased for lease and Murabaha contracts

Properties purchased for lease and Murabaha contracts are recognized in the statement of financial position as a current asset. Amounts payable to the landlord are recorded under current liabilities in the statement of financial position. Once the legal title of the property is transferred in the Company's name or the customer's name, and the contract is signed with the customer, these assets become part of the net investment in finance lease or Murabaha receivables.

B. Derivative financial instrument

The Company uses derivative financial instrument held at fair value through profit and loss ("FVTPL") to hedge its exposure to changes in interest rates on certain finance lease contracts. Such derivative financial instrument is initially recognised at fair value on the date on which a derivative contract is entered into and is subsequently remeasured at fair value. Derivative financial instrument is 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 derivative financial instruments is taken directly to the statement of profit or loss and other comprehensive income. The Company does not apply hedge accounting.

C. Income/expense recognition

Income from finance lease
Finance lease income is recognized using the EIR method over the term of the arrangement. No income is recognized on any contract once the earliest payment is overdue for more than 90 days.

Income from Murabaha receivables
Finance income is recognised using the EIR method over the term of the arrangement. No income is recognized on any contract once the earliest payment is overdue for more than 90 days.

Service fees
Service fees are recognised as the related services are performed and performance obligations are achieved.

Application and evaluation fee income
Application and evaluation fee income are charged when the customer submits his application for evaluation to qualify for lease financing. Application and evaluation fee income are recognised as the transaction is completed or the service, is provided.

Related fees and commission expense are expensed as the transaction is completed or the service is received.

Asset sale income
This represents gain on third party sale of investment in finance lease portfolio and is recognised upfront upon completion of the sale transaction (i.e. when risks and rewards of asset is transferred to the buyer).

Other income
Others include gain on sale of other real estate and is recognized upon completion of the sale transaction.

D. Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and balances with local banks having sound credit rating with original maturities of three (3) months or less.

E. End of service benefits

The provision for end of service benefits is determined in accordance with Saudi Arabian Labour Laws and using actuarial valuation method. Net obligations, with respect to end of service benefits, to the Company are calculated by using a projected unit credit method. Actuarial gains and losses on remeasurements are recognised in full in the period in which they occur in other comprehensive income. Remeasurements are not reclassified to profit or loss in subsequent periods.

Interest expense is calculated by applying the discount rate to the net defined benefit liability. The Company recognizes the following changes in the net defined benefit obligation under 'Employees' salaries and other benefits' in the statement of profit or loss and other comprehensive income:

- Service costs comprising current services costs, past-service costs, gain and losses on curtailments and non-routine settlements, and
- Net interest expense or income

Actuarial gains/(losses) are recognized in other comprehensive income.

The assumptions used to calculate the scheme obligations include assumptions such as expected future salaries growth, expected employee resignation rates, and discount rate to discount the future cash flows.

The Company is also required to contribute towards a state-owned benefit plan where the Company's obligation under the plan is to make specified monthly contribution based on specified percentage of payroll cost as stipulated under the regulation. These contributions are recognized as an expense when employees have rendered the service entitling them to the contributions. Any unpaid amounts are classified as accruals.

A liability is also recognized for benefits accruing to the employees in respect of wages and salaries, annual leaves and other related benefits in the period the related services are rendered at the undiscounted amount of the benefits expected to be paid and are classified as accruals.

F. Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the company. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease.

The estimated useful lives of the principal classes of assets for all years presented are as follows:

	Rate
Leasehold improvements	10%
Motor vehicles	25%
Furniture, fixture and office equipment	10%-25%
Computers	25%-33.3%

Depreciation is charged using the straight-line method over its estimated useful life, at the rates specified above, after taking into account residual value. Depreciation on additions is charged from the month the assets are available for use. Gains / losses on disposal of property and equipment, if any, are taken to the statement of profit or loss and other comprehensive income in the period in which they arise.

G. Intangible assets

Intangible assets that are acquired by the Company and have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment.

Intangible assets are amortised on a straight-line basis in the statement of profit or loss and other comprehensive income over their estimated useful lives from the date that they are available for use.

Intangible assets comprise of computer software and their estimated useful life for the current and comparative years is 3-5 years (2021: 3-5 years). Amortization method and useful life is reviewed at least end of each reporting period.

H. Impairment of non - financial assets

An assessment is made at each statement of financial position date to determine whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units' ("CGU") fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

I. Deferred origination fees

Deferred origination fees comprise of the unamortised portion of commission paid to a shareholder for deals originated through the use of infrastructure, resources and client base of the shareholder. This fee is amortized using the straight-line method over the period of the respective lease contracts. The difference between recognition based on EIR and the straight-line method is not considered material.

J. Advance lease rental

Advance lease rental includes rent received from customers in advance of their due date and down payments.

K. Other provision

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimates.

L. Accounting for zakat and income tax

Zakat

The Company is subject to zakat in accordance with the regulations of the Zakat, Tax, and Customs Authority ("ZATCA"). The zakat charge is computed on the zakat base. Zakat is provided on an accruals basis on the share of the Saudi shareholder in the zakat base. Any difference in the estimate is recorded when the final assessment is approved at which time the provision is cleared.

Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to ZATCA. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax

Deferred tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available, and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

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

Current and deferred tax is recognised in statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised in other comprehensive income.

M. Transactions with related parties

The Company has related party relationships with related companies, associated companies, directors and key management personnel and entities over which the directors or key management personnel are able to exercise significant influence. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are disclosed in the relevant notes.

N. Foreign currency transactions

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of profit or loss and other comprehensive income.

O. Expenses

General and administrative expenses are expenses related to the day-to-day operations of the business including rent, insurance, utilities and salaries. The Company follows accrual basis of accounting to record the general and administrative expenses and recognised as expenses in the statement of profit or loss and other comprehensive income in the period in which they are incurred. Expenses that are deferred for more than one financial period are allocated to expenses over such periods using historical cost. Sales and marketing expenses excluding compensation cost are those expenses that relates to sales and marketing representatives.

P. Value Added Tax ("VAT")

The Company collects VAT from its customers for qualifying services provided and make VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the ZATCA representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Company and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

Q. Servicing rights under agency arrangements

A servicing right asset/liability is recognised for servicing rights under agency arrangements (acquired by the Company pursuant to sale of originated leases to third parties or as consideration for financing arrangements services) at the present value of net future cash flows under the agency arrangements. The net present value computation encompasses among others, estimates in respect of discount rate and fair value of services. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Net servicing assets are amortised over their definite useful economic life (in conformity with the collection arrangements with the banks) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation of net servicing asset is charged to the statement of income.

Net servicing liabilities are recorded as provision under IAS 37 and are required to be reviewed at the end of each reporting period and adjusted to reflect current best estimates.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncement issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

The Company has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2022 about future events that the Company believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Company. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

Significant areas where management have used estimates, assumption or exercised judgement are as follows:

Critical judgements in applying the Company's accounting policies

Business model assessment
Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of note 3). The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets and monitoring is part of the Management's continuous assessment of whether the business model for which the financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were made during the periods presented.

Significant increase in credit risk
As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 financial assets, or lifetime ECL for stage 2 or stage 3 financial assets. A financial asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Company takes into account qualitative and quantitative reasonable and supportable information.

Derecognition of investment in finance lease
The derecognition of investment in finance lease requires Company to exercise significant judgement to conclude if substantially all risks and rewards are transferred or the Company has not retained any control of the assets.

Under the relevant agreements, either the Company's rights to the cashflows have expired and transferred to purchaser or the Company has assumed an obligation to pay the cashflows from the investment in finance lease to the purchaser and as such, the management has concluded that substantially all risks and rewards are transferred to the purchaser and the Company has not retained any control of the transferred assets. Consequentially, the management has derecognized such assets.

Key sources of estimation uncertainty

Allowance for expected credit loss on net investments in finance lease, Murabaha receivables, and insurance claims receivable on non-performing deceased-case leases.

The measurement of ECL under IFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.
The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

1. The selection of an estimation technique or modelling methodology, covering below key judgements and assumptions, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs

   a) The Company's model, which assigns Probability of Default ("PD").
   b) Loss Given Default ("LGD") determination by applying haircut on the collaterals considering difference between forced sale value and fair market value, time of realization, cost of realization and current effective profit rate.
   c) The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances should be measured on a Lifetime ECL basis;
   d) The segmentation of financial assets and net investment in finance leases when their ECL is assessed;
   e) Development of ECL models, including the various formulas; and
   f) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Employee benefits liability

The cost of the employee benefits under defined unfunded benefit plans is determined using an actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation and its long-term nature, a defined unfunded benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently, if required.

(Amounts in Saudi Riyals unless otherwise stated)

5. CASH AND BANK

	Note	2022	2021
Cash in hand		**36,000**	22,000
Cash at bank		**39,857,699**	172,245,647
Certified cheques in hand	5.2	**2,953,584**	11,716,500
Cash and cash equivalents		**42,847,283**	183,984,147
Restricted deposits with banks	5.1	**42,200,000**	42,200,000
		85,047,283	226,184,147

Cash at banks include profit bearing Murabaha deposits of SR 20 million with profit rate approximating 5.5% annually.
As at each reporting date, all bank balances are assessed to have low credit risk as they are held with reputable and high credit rating banking institutions and there has been no history of default with any of the Company's bank balances. Therefore, the probability of default based on forward looking factors and any loss given defaults are considered to be negligible.

	2022
A-	**23,306,753**
A3	**12,155**
BBB+	**58,738,791**
Total excluding cash and certified cheques in hand	**82,057,699**

5.1 Restricted deposits

This balance represents restricted deposits with commercial banks against Tawarruq financing facility. As per facility agreement, the Company is required to maintain certain amounts in reserve accounts with the commercial banks and the Company cannot make any transaction and withdraw this deposit until the repayment of Tawarruq liabilities.

5.2 Certified cheques in hand

This balance represents the value of certified cheques issued for the purchase of properties under the approved Ijarah and Murabaha contracts and for which the transfer of title deeds is under process. These certified cheques are submitted by official Company representatives directly at the government offices at the time of transfer of title deeds. Risk and rewards and control of such underlying properties and related Ijarah and Murabaha contracts are not transferred to the Company as of the reporting date and there is no contractual rights and obligation of Company as of the reporting date under such Ijarah and Murabaha contracts.

(Amounts in Saudi Riyals unless otherwise stated)

6. RELATED PARTY TRANSACTIONS

The related parties of the Company include the shareholders and an affiliate (i.e., a company with a common shareholder), and key management personnel. In the ordinary course of business, the Company enters into transactions with its related parties, which are based on prices and contract term approved by the Company's management and on an agreed basis with these related parties:

Name	Relationship
Arab National Bank ("ANB")	Shareholder
Dar Al Arkan	Shareholder
International Financial Corporation ("IFC")	Shareholder*
Kingdom Instalment company ("KIC")	Shareholder*
Quara Digital Private Limited	Affiliate
Wasalt Real Estate Services	Affiliate
Tharwat Alasool Real Estate Company	Affiliate

* During 2022, IFC and KIC sold all of their shares in the Company and are no longer a shareholder as of December 31, 2022.

The significant related party transactions during the year are as follows:

	2022	2021
Tawarruq financing charges (ANB) - shareholder	**65,948,106**	47,878,512
Residential unit purchased (Dar Alarkan) - shareholder	**3,817,400**	20,394,085
Service fees, net (ANB) - shareholder	**4,011,273**	5,452,678
Hedging gain (ANB) - shareholder	**290,090**	-
Tawarruq financing charges (IFC) - shareholder	**4,475,884**	3,831,843
Rent paid (Tharwat Alasool Real Estate Company) - affiliate	**2,179,940**	2,179,940
Profit on Murabaha deposits (ANB)	**413,425**	-
Real estate services (Wasalt) - affiliate	**250,125**	-
Technology support (Quara Digital PL) - affiliate	**12,907**	-
Deferred origination fees (ANB) - shareholder	-	25,210

The following related party balances are included in the statement of financial position as at 31 December:

	2022	2021
Loan obtained from a shareholder (ANB) (Note 20)	**1,571,624,937**	1,672,545,150
Loan obtained from a shareholder (IFC) (Note 20)	**78,405,789**	109,517,304
Deferred origination fees (ANB) (Note 12)	**14,375,181**	18,204,844
Prepaid financing facility fees (IFC) (Note 7)	**469,912**	783,208
Due from a related party related to service fees (ANB) (Note 15)	**593,004**	739,733
Bank balances and Murabaha deposits (ANB) (Note 5)	**20,000,000**	-
Fair value of derivative financial instruments (ANB) (Note 14)	**31,132,519**	-

Compensation for Key Management Personnel ("KMP")

KMP are those having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Company's KMP includes the Board of Directors (including executive and non-executive directors) and selected key employees who meet the above criteria.

(Amounts in Saudi Riyals unless otherwise stated)

The compensation details of Company's KMP is provided below:

	2022	2021
Salaries	**4,305,840**	3,480,840
End of service benefits	**202,820**	168,445
Other allowances	**1,191,901**	1,046,792
Board of directors' remuneration - connected persons	**4,616,000**	-
	10,316,561	4,696,077

7. PREPAID EXPENSES AND OTHER ASSETS

	2022	2021
Prepaid financing facility fees	**2,285,537**	3,446,333
Prepaid medical insurance	**1,172,259**	1,047,527
Prepaid software maintenance	**674,739**	968,923
Saudi Financial Lease Contract Registry Company ("SIJIL") registration charges	**-**	54,900
Advance tax paid (note 18)	**1,842,057**	-
Others	**1,700,721**	1,087,919
	7,675,313	6,605,602

8. OTHER RECEIVABLES, NET

	2022	2021
Insurance claims receivable on deceased-case leases	**34,930,730**	47,626,621
Receivables under litigation	**10,259,816**	8,321,026
VAT receivable from Ministry of Housing	**5,936,035**	6,140,137
Deferred expenses	**-**	2,594,633
Due from ZATCA (note 18)	**6,437,562**	-
Due from Saudi Real Estate Refinance Company ("SRC")	**293,067**	206,430
Employees' advances and receivables	**123,482**	114,250
Others	**717,001**	-
	58,697,693	65,003,097
Allowance against receivables under litigation and deceased-case leases	**(27,084,724)**	(28,123,458)
	31,612,969	36,879,639

Allowance against insurance claims receivable and receivables under litigation comprise the following:

	2022	2021
Allowance against insurance claims receivable on deceased case leases (see note below)	**23,475,169**	24,910,881
Allowance against receivables under litigations	**3,609,555**	3,212,577
	27,084,724	28,123,458

(Amounts in Saudi Riyals unless otherwise stated)

Movement in allowance during the year

	Allowance against insurance claim	**Allowance against receivable under litigations**
1 January	**24,910,881**	3,212,577
Charge during the year, net	**1,702,520**	396,978
Provision written off	(3,138,232)	-
	23,475,169	3,609,555

During the year, on the contracts signed after 1 October 2018, the management has written off insurance claims receivable of SR 1.88 million directly to the statement of profit or loss (note 27) and SR 3.14 million against the allowance recognized previously.

The Company recognizes 100% allowance against all rejected insurance claims. The Company is following the collection rules and procedures to settle and recover these due amounts.

9. INVESTMENTS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On December 17, 2017, the Company subscribed 2.38% shareholding in Saudi Company for Registration of Financial Leasing Contracts ("Registration Company"), registered in the Kingdom of Saudi Arabia. The Registration Company has been formed with other finance and leasing companies registered in the Kingdom of Saudi Arabia for registration of contracts relating to financial leases and amendments and registration and transfer of title deeds of the assets under the finance leases arrangements.

Investment classified as fair value through other comprehensive income is measured at cost as measurement of fair value would entail undue cost and efforts and any changes are not expected to be material to the financial statements.

As at 31 December 2022 and 2021 the carrying value of this investment is not materially different to its fair value.

10. INVESTMENTS IN FINANCE LEASES, NET

	2022	2021
Investments in finance leases - gross	**5,843,497,410**	6,200,514,939
Less: Unearned finance income	**(1,997,736,060)**	(2,123,208,607)
Investments in finance leases before expected credit loss	**3,845,761,350**	4,077,306,332
Less: Allowance for expected credit losses	**(31,055,552)**	(64,003,238)
Investments in finance leases - net	**3,814,705,798**	4,013,303,094

Total number of outstanding lease contracts as at 31 December 2022 is 6,429 (2021: 6,827).

The Company generates substantially all of its revenues from leasing real estate in the Kingdom of Saudi Arabia. Amounts due under finance leases receivables are due from individual customers.

(Amounts in Saudi Riyals unless otherwise stated)

10.1 The movement in the allowance for expected credit losses for investments in finance leases as at 31 December is shown below:

	2022
January 1	**64,003,238**
Provision written off	**(5,092,155)**
Reversed during the year, net	**(27,855,531)**
December 31	**31,055,552**

	2021
January 1	82,430,269
Reversed during the year	(18,427,031)
December 31	64,003,238

During 2022, the Company has written off an amount of SR 5.1 million (2021: SR nil) following the new SAMA rules governing credit risk exposure classification and provisioning.

10.2 The credit quality of investments in finance leases is as follows:

	2022			
	12-month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loss rate in %	**0.07**	**2.9**	**12.4**	**0.8**
Investment in finance lease before ECL	**3,420,777,735**	**252,011,820**	**172,971,795**	**3,845,761,350**
Allowance for ECL	**(2,268,656)**	**(7,341,687)**	**(21,445,209)**	**(31,055,552)**
Net carrying amount	**3,418,509,079**	**244,670,133**	**151,526,586**	**3,814,705,798**

	2021			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss rate in %	0.04	2.4	23.1	1.6
Investment in finance lease before ECL	3,553,703,369	283,026,793	240,576,170	4,077,306,332
Allowance for ECL	(1,433,525)	(6,905,996)	(55,663,717)	(64,003,238)
Net carrying amount	3,552,269,844	276,120,797	184,912,453	4,013,303,094

The related staging movements of the investments in finance leases, the related allowance for expected credit losses and information about collateral are disclosed in Note 30.

(Amounts in Saudi Riyals unless otherwise stated)

10.3 Maturity profile of lease payments is as follows:

	2022		
Year	**Gross lease receivables**	**Unearned finance income**	**Investments in finance leases**
Within one year	**449,986,243**	**117,235,888**	**332,750,355**
Year two	**521,685,885**	**232,026,378**	**289,659,507**
Year three	**498,735,674**	**211,057,937**	**287,677,737**
Year four	**473,761,174**	**190,340,761**	**283,420,413**
Year five and later	**3,899,328,434**	**1,247,075,096**	**2,652,253,338**
	5,843,497,410	**1,997,736,060**	**3,845,761,350**

	2021		
Year	Gross lease receivables	Unearned finance income	Investments in finance leases
Within one year	599,409,583	264,568,587	334,840,996
Year two	536,912,377	245,592,745	291,319,632
Year three	517,230,730	226,174,399	291,056,331
Year four	492,460,144	208,725,999	283,734,145
Year five and later	4,054,502,105	1,178,146,877	2,876,355,228
	6,200,514,939	2,123,208,607	4,077,306,332

10.4 The ageing of gross receivables which are past due is as follows:

Days past due:	**2022**	2021
1 - 3 months	**14,437,549**	14,202,528
4 - 6 months	**670,888**	757,270
7 - 12 months	**1,604,770**	585,515
Over 12 months	**34,992,925**	43,002,088
Total	**51,706,132**	58,547,401

The not yet due portion of the above overdue balance is SR 1,931 million (2021: SR 1,940 million).

During the year, the finance lease receivables decreased mainly as a result of decrease in the outstanding lease agreements to 6,429 from 6,827 in 2021. The average term of finance leases entered into is 19 years. Generally, these lease contracts do not include extension options but include early termination options.

The Company is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in SR. No residual value is considered when entering or accounting for the lease contracts.

The Company's finance lease arrangements include fixed rate contract as well as variable rate contracts. The average effective interest rate on these finance lease contracts is 6.83 per cent (2021: 6.53 per cent) per annum.

The principal outstanding and accrued profit on finance lease receivables modified during the year is SR 6.5 million and SR 81,093 respectively.

Refer to note 30 for changes made in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance.

(Amounts in Saudi Riyals unless otherwise stated)

11. MURABAHA RECEIVABLES, NET

	2022	2021
Murabaha receivables, gross	**480,113,746**	115,844,596
Less: Unearned finance income	**(170,993,897)**	(40,987,468)
Murabaha receivables before ECL	**309,119,849**	74,857,128
Less: Allowance for expected credit losses	**(1,005,519)**	(70,991)
Murabaha receivables, net	**308,114,330**	74,786,137

Total number of outstanding Murabaha contracts as at 31 December 2022 is 342 (2021: 83). Amounts due under Murabaha receivables are due from individual customers.

11.1 The movement in allowance for expected credit losses is shown below:

	2022	2021
January 1	**70,991**	-
Charge for the year	**934,528**	70,991
December 31	**1,005,519**	70,991

11.2 The credit quality of Murabaha receivables is as follows:

	2022			
	12-month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loss rate in %	**0.1**	**4.3**	**13**	**0.3**
Murabaha receivables before ECL	**298,957,600**	**8,703,946**	**1,458,303**	**309,119,849**
Allowance for ECL	**(436,508)**	**(378,746)**	**(190,265)**	**(1,005,519)**
Net carrying amount	**298,521,092**	**8,325,200**	**1,268,038**	**308,114,330**

	2021			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss rate in %	0.1	-	-	0.1
Murabaha receivables before ECL	74,857,128	-	-	74,857,128
Allowance for ECL	(70,991)	-	-	(70,991)
Net carrying amount	74,786,137	-	-	74,786,137

The related staging movements of Murabaha receivables, the related allowance for expected credit losses and information about collateral are disclosed in Note 30.

(Amounts in Saudi Riyals unless otherwise stated)

11.3 Maturity profile of murabaha payments is as follows:

	2022		
Year	**Gross receivables**	**Unearned finance income**	**Receivables before ECL**
Within one year	**37,410,748**	**18,881,709**	**18,529,039**
Year two	**36,405,229**	**17,586,376**	**18,818,853**
Year three	**36,405,229**	**19,495,902**	**16,909,327**
Year four	**36,405,229**	**16,799,543**	**19,605,686**
Year five and later	**333,487,311**	**98,230,367**	**235,256,944**
	480,113,746	**170,993,897**	**309,119,849**

	2021		
Year	Gross receivables	Unearned finance income	Receivables before ECL
Within one year	7,024,337	4,075,703	2,948,634
Year two	7,024,337	3,897,369	3,126,968
Year three	7,024,337	3,707,205	3,317,132
Year four	7,024,337	3,504,338	3,519,999
Year five and later	87,747,249	25,802,854	61,944,395
	115,844,597	40,987,469	74,857,128

11.4 The ageing of gross receivables which are past due is as follows:

Days past due:	**2022**	2021
1 - 3 months	**541,836**	87,626
4 - 6 months	**51,655**	-
Total	**593,491**	87,626

The not yet due portion of the above overdue balance is SR 106 million (2021: SR 18.37 million).

Refer to note 30 for changes made in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance.

12. DEFERRED ORIGINATION FEES

Deferred origination fees comprise of the unamortized portion of commission paid to ANB for deals originated through the use of its infrastructure, resources and client base.

The movement in deferred origination fees is shown below:

	2022	2021
January 1	**18,204,844**	22,027,601
Origination fees incurred and paid for the year	**-**	25,210
Origination charge for the year	**(3,829,663)**	(3,847,967)
December 31	**14,375,181**	18,204,844

13. OTHER REAL ESTATE, NET

The Company repossesses real estate assets against settlement of over-due receivables relating to finance leases as follows:

The movement in other real estate is shown below:

	2022	2021
January 1	**8,636,219**	8,656,926
Repossessed during the year	**21,987,232**	10,768,668
Sold during the year	**(7,155,168)**	(10,727,212)
Impairment losses recognized	**(1,484,675)**	(62,163)
December 31	**21,983,608**	8,636,219

14. DERIVATIVE FINANCIAL INSTRUMENT

During the year, the Company has entered into an Interest Rate Swap ("IRS") agreement to hedge its interest rate exposure on certain finance lease contracts through exchanging fixed rate interest payments at 1.47% monthly with USD-SOFR based interest payments paid monthly. The hedging instrument is denominated in United States Dollar. However, it does not currently apply hedge accounting treatment.

The positive fair value of the IRS as at 31 December 2022 was SR 31.32 million with a notional amount of SR 189 million. The notional amount provides an indication of the volumes of the transactions outstanding at the end of the period and does not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Company's exposure to credit risk nor market risk.

The hedging income recognized in the statement of profit or loss and other comprehensive income during the year is SR 0.3 million.

The hedge arrangement's maturity date is November 2041 with notional amount decreasing gradually over the period.

Derivatives are valued using valuation techniques with market observable inputs. The fair value of interest rate swaps is generally calculated as the present value of the estimated future cash flows using the curves at the reporting date and adjusted to reflect the credit risk of the counterparties.

15. SERVICING RIGHTS UNDER AGENCY ARRANGEMENTS

The Company has entered into Portfolio Purchase Agreements and Servicing Agreements (collectively referred to as the "Agreements") with SRC. Under the terms of these Agreements, the Company first sells eligible investment in finance lease receivables to SRC and then manages them on behalf of SRC as an agent for a monthly fee as per the terms of the Servicing Agreements. The Company has assumed an obligation to pay the cashflows from the investment in finance lease to SRC and as such, upon sale, the Company derecognizes the investment in finance lease receivables from its books and recognizes the difference as either gain or loss on derecognition of investment in finance lease receivables.

During 2022, the Company sold SR 38.98 million (31 December 2021: SR 266.67 million) of its outstanding principal balances and the total amount received from SRC in respect of such sale was SR 39.26 million (31 December 2021: SR 272.45 million). Net gain recognized on derecognition of these receivables was SR 0.23 million during the year (2021: SR 2.18 million).

(Amounts in Saudi Riyals unless otherwise stated)

In 2014, the Company also entered into Leased Assets Sale Agreements and Service Agreements with ANB, a shareholder and sold eligible lease agreements with all associated rights and obligations to ANB. Under the agreement, the Company's right to cashflows have expired and transferred to ANB.

The Company services them on behalf of ANB as an agent for a monthly fee as per the terms of the Service Agreements. The services mainly relate to arranging insurance coverage for the entire period of the lease agreements sold and in respect of coverage of no less than the outstanding principal balance. The Company has contractually transferred the rights to cashflows of the sold contracts.

The Company recognized servicing fee income of SR 5.6 million during the year (2021: SR 6.2 million).

16. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities includes amounts pertaining to VAT payable to ZATCA, evaluation and other services provider companies.

17. ACCRUED EXPENSES AND OTHER LIABILITIES

	2022	2021
Employees' related expenses	**6,171,201**	6,875,322
Board related expenses	**4,616,000**	-
Accrued credit life insurance	**4,133,848**	-
Accrued annual maintenance charges	**1,629,218**	3,013,577
Others	**2,440,699**	1,778,027
Total	**18,990,966**	11,666,926

18. PROVISION FOR ZAKAT AND INCOME TAX

Zakat is a levy as defined by the ZATCA in the Kingdom of Saudi Arabia on the Saudi shareholders. Income tax charge for the year has been calculated based on adjusted net income of the Company attributable to non-Saudi shareholders at the rate of 20% per annum.

The Company has filed its zakat and income tax returns for the years from 2008 up to 2021 and have received final assessment up to 2018.

Prior years zakat settlement

For financial years 2008 - 2013, the files for these years were closed based on settlement agreed with the authority.

Furthermore, in February 2019, the Company received a settlement agreement from the ZATCA to settle the outstanding assessments relating to zakat for the financial years from 2014 to 2017 and provided a settlement calculation method for financial year 2018. The Company accepted this settlement agreement and began paying the amounts. The remaining balance to be paid as part of this settlement as at 31 December 2022 is SR 4.06 million (2021: SR 8.12 million) over the next 12 months.

(Amounts in Saudi Riyals unless otherwise stated)

a) Zakat and income tax charge for the year

	2022	2021
Zakat relating to the Saudi shareholder	**8,911,036**	9,694,054
Income tax relating to the non-Saudi shareholder	**1,523,469**	5,686,787
Total	**10,434,505**	15,380,841

Components of zakat base

The principal elements of the zakat base are as follows:

	2022	2021
Assets excluded from zakat base	**3,819,908,596**	3,841,461,708
Assets included in zakat base	**511,016,419**	570,553,939
Net income before Zakat and income tax	**97,942,936**	119,011,448
Zakat Base	**391,771,744**	476,045,792

Some of the above amounts have been adjusted in arriving at the zakat charge for the Company in respect of the Saudi shareholder.

b) Movement in the zakat and income tax provisions during the year

Zakat	**2022**	2021
January 1	**17,811,438**	23,995,803
Provision for zakat for current year	**8,911,036**	9,694,054
Payment during the year against previous years	**(4,058,692)**	(4,058,693)
Payment during the year against 2021 provision	**(9,694,054)**	(11,819,726)
December 31	**12,969,728**	17,811,438

Income tax	**2022**	2021
January 1	**1,458,426**	648,992
Provision for income tax for current year	**1,471,809**	4,772,292
Provision for income tax for previous years	-	914,495
Under provision for previous year	**51,660**	
Payment during the year	**(4,823,952)**	(4,877,353)
Reclassified to prepaid expenses and other assets	**1,842,057**	-
December 31	-	1,458,426

Prior years income tax adjustment

During 2022, the Company received a refund of SR 4.4 million from ZATCA (presented as "Income tax refund for previous periods" in the statement of profit or loss and other comprehensive income) which relates to previous years' income tax adjustments and a remaining receivable balance of SR 6.4 million is expected to be received in next 12 months which is presented within other receivables in note 8.

(Amounts in Saudi Riyals unless otherwise stated)

The Company's provision for income tax for the year ended 31 December is computed as follows:

	2022
Profit before tax	**97,942,377**
Non-Saudi portion of the adjusted net income (11.76%)	**11,518,024**
Tax at the income tax rate of 20%	**2,303,605**
Tax effect of expenses that are not deductible in determining taxable profit	**159,658**
Tax effect of income that are not taxable in determining taxable profit	**(800,354)**
Other adjustments	**(191,100)**
Income tax expenses for the year	**1,471,809**

19. DEFFERED TAX

	2022	2021
January 1	**4,402,330**	4,837,338
Movement during the period	**(2,485,252)**	(435,008)
December 31	**1,917,078**	4,402,330

The Company's deferred tax assets arise primarily from employees' end of service benefits liability, allowance for expected credit losses and depreciation of property and equipment and intangible assets.

2022	**January 1**	**Recognised in the statement of profit or loss**	**December 31**
Deductible temporary difference			
Depreciation of property and equipment	**362,716**	**101,908**	**464,624**
Provision for end of service benefits liability	**335,311**	**312,594**	**647,905**
Provision for expected credit losses	**3,704,303**	**(2,899,754)**	**804,549**
Balance at end of the year	**4,402,330**	**(2,485,252)**	**1,917,078**

2021	January 1	Recognised in the statement of profit or loss	December 31
Deductible temporary difference			
Depreciation of property and equipment	304,881	57,835	362,716
Provision for end of service benefits liability	351,616	(16,305)	335,311
Provision for expected credit losses	4,180,841	(476,538)	3,704,303
Balance at end of the year	4,837,338	(435,008)	4,402,330

(Amounts in Saudi Riyals unless otherwise stated)

20. TAWARRUQ FINANCING FACILITIES

	2022	2021
Tawarruq payable excluding finance charges	**2,544,092,004**	2,648,967,204
Accrued Tawarruq finance charges	**7,176,514**	4,107,311
	2,551,268,518	2,653,074,515

These represent Tawarruq financing facilities from ANB, IFC, Gulf International Bank ("GIB"), Saudi National Bank ("SNB") and SRC to finance the investments in finance lease.

All facilities are secured by promissory notes and assignment of contracts and proceeds from investments in finance lease. These facilities bear finance charges at interest margin plus market variable interest rates.

Facility repayment schedule is based on equal semi-annual or quarterly payments except for SRC that would be paid fully at the end of the facility period.

The Company also has to comply with certain covenants and as at 31 December 2022, the Company is not in compliance with certain covenant requirements.

The total gross receivable outstanding from customers under investment in finance leases which are assigned against Tawarruq financing facilities are SR 2.8 billion.

The movements during the year ended 31 December are as follows:

	2022	2021
January 1	**2,653,074,515**	2,819,883,777
Utilization during the year	**150,000,000**	200,000,000
Repayment during the year	**(254,875,200)**	(358,814,404)
Finance charges accrued during the year	**106,706,161**	74,077,401
Finance charges repaid during the year	**(103,636,958)**	(82,072,259)
December 31	**2,551,268,518**	2,653,074,515

Total facilities and outstanding balance is as follows:

2022	**Total Facilities**	**Outstanding balance**
ANB	**2,756,696,969**	**1,571,624,937**
GIB	**865,000,000**	**358,013,561**
IFC	**187,500,000**	**78,405,789**
SNB	**400,000,000**	**338,470,140**
SRC	**325,000,000**	**204,754,091**
	4,534,196,969	**2,551,268,518**

(Amounts in Saudi Riyals unless otherwise stated)

2021	Total Facilities	Outstanding balance
ANB	3,256,696,969	1,672,545,150
GIB	865,000,000	411,908,999
IFC	187,500,000	109,517,304
SNB	400,000,000	357,742,546
SRC	250,000,000	101,360,516
	4,959,196,969	2,653,074,515

Finance charges recognized during the year are as follows:

	2022	2021
ANB	**65,658,016**	47,878,512
GIB	**15,764,453**	11,034,082
IFC	**4,475,884**	3,831,843
SNB	**15,103,343**	9,497,653
SRC	**5,629,465**	1,835,311
Bank Al Jazirah	**75,000**	-
Total	**106,706,161**	74,077,401

Changes in liabilities arising from financing activities
The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's cash flow statement as cash flows from financing activities.

	1 January 2022	**Proceeds from lenders**	**Repayments to lenders/lessee**	**Other changes**	**Non-cash changes**	**31 December 2022**
Tawarruq financing facilities	**2,653,074,515**	**150,000,000**	**(254,875,200)**	**3,069,203**	-	**2,551,268,518**
Lease liabilities	**6,753,491**	-	**(2,518,040)**	**339,739**	**931,149**	**5,506,339**
Total liabilities from financing activities	**2,659,828,006**	**150,000,000**	**(257,393,240)**	**3,408,942**	**931,149**	**2,556,774,857**

	1 January 2021	Proceeds from lenders	Repayments to lenders/lessee	Other changes	Non-cash changes	31 December 2021
Tawarruq financing facilities	2,819,883,777	200,000,000	(358,814,404)	(7,994,858)	-	2,653,074,515
Lease liabilities	3,841,748	-	(3,053,640)	191,085	5,774,298	6,753,491
Total liabilities from financing activities	2,823,725,525	200,000,000	(361,868,044)	(7,803,773)	5,774,298	2,659,828,006

Other changes include interest accruals and payments.

(Amounts in Saudi Riyals unless otherwise stated)

21. END OF SERVICE BENEFITS LIABILITY

The Company operates a defined benefit plan for its staff based on the prevailing Saudi Labour Laws.

The amounts recognized in the statement of financial position and movement in the obligation during the year based on actuarial valuation are as follows:

	2022	2021
January 1	**8,598,413**	8,371,800
Current service cost	**1,493,630**	1,527,171
Interest cost on defined benefit obligation	**342,017**	180,353
Benefits paid to outgoing members during the year	**(408,159)**	(808,795)
Actuarial gain on obligation	**(294,332)**	(672,116)
December 31	**9,731,569**	8,598,413

Amounts charged to the statements of profit or loss and comprehensive income for the year are as follows:

	2022	2021
Current service cost	**1,493,630**	1,527,171
Interest cost on defined benefit obligation	**342,017**	180,353
Cost recognised in the statement of profit or loss	**1,835,647**	1,707,524
Actuarial gain on obligation recognised in OCI	**(294,332)**	(672,116)
Total defined benefit cost recognised during the year	**1,541,315**	1,035,408

The re-measurement recognised in other comprehensive income comprise of the following:

	2022	2021
Loss/(gain) from change in financial assumptions	**44,554**	(138,389)
Gain due to change in demographic assumptions	**(161,321)**	(27,293)
Gain from change in experience assumptions	**(177,565)**	(506,434)
Actuarial re-measurement of the defined benefit obligation	**(294,332)**	(672,116)

The principal actuarial assumptions in respect of the employee benefit scheme are as follows:

	2022	2021
Discount rate	**4.65%**	2.30%
Expected rate of salary increase	**5% is for first 2 years and 4.65% onwards**	2.30%
Mortality rate	**WHO SA 19**	**WHO SA 19-75%**
Normal retirement age	**60**	60

(Amounts in Saudi Riyals unless otherwise stated)

The maturity profile of the defined benefit obligation is as follows:

	2022	2021
Weighted average duration of the defined benefit obligation	**5.7**	6.92
Distribution of timing of benefit payments		
Year 1	**1,335,147**	1,000,986
Year 2	**1,990,249**	1,569,037
Year 3	**1,439,843**	1,024,840
Year 4	**1,534,805**	1,088,959
Year 5	**1,419,551**	1,140,646
Year 6-10	**7,435,159**	5,429,734

The Company expects to recognise SR 1,919,403 as current service costs and interest costs in its statement of profit or loss and other comprehensive income during the next financial year.

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December 2022 and 2021 to the discount rate and the expected rate of salary increase while other assumptions remain constant.

	2022	2021
Discount rate, +0.5%	**(270,006)**	(288,553)
Discount Rate, -0.5%	**285,200**	307,580
Expected rate of salary increase, +0.5%	**218,261**	306,035
Expected rate of salary increase, -0.5%	**(208,922)**	(289,926)

Significant actuarial assumptions for the determination of the employee benefits liability are discount rate, expected salary increase and mortality. The sensitivity analysis has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

The sensitivity analysis presented may not be representative of the actual change in the employee benefits liability as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the sensitivity analysis, the present value of the employee benefits liability has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the employee benefits liability recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

As of December 31, 2022, and 2021, an independent actuarial exercise has been conducted to ensure the adequacy of provision for employees' end of service benefits in accordance with the rules stated under the Saudi Arabian Labor Law and those set by the management respectively by using the Projected Unit Credit Method as required under IAS 19 *Employee Benefits*.

The expense recognized in statement of profit or loss and other comprehensive income in respect of state-owned benefit plan ("GOSI") is SR 2.6 million (2021: SR 2.9 million).

(Amounts in Saudi Riyals unless otherwise stated)

22. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company consists of 100 million shares of SR 10 each. During the year, the Company floated 30% of its existing share capital on Tadawul and the trading started on 20 April, 2022. The revised shareholding of the Company is as follows:

	Number of shares of SR 10 each	Share capital
Arab National Bank (ANB)	29,400,000	294,000,000
Dar Al Arkan Real Estate Development Company	10,500,000	105,000,000
Youssef bin Abdullah Al Shalash	5,600,000	56,000,000
Public and others (listed on Tadawul)	54,500,000	545,000,000
	100,000,000	1,000,000,000

Other shareholders include the public shareholders and the founding shareholders who own less than 5%.

As at 31 December, 2021, the shareholding of the Company was as follows:

	Number of shares	Share capital
Arab National Bank (ANB)	40,000,000	400,000,000
Dar Al Arkan Real Estate Development Company	15,000,000	150,000,000
Kingdom Instalment Company	9,000,000	90,000,000
Youssef bin Abdullah Al Shalash	8,000,000	80,000,000
Tareq Mohammad Al Jarallah	6,000,000	60,000,000
Hathlool Bin Saleh Al Hathlool	6,000,000	60,000,000
International Financial Corporation (IFC)	5,000,000	50,000,000
Abdulatif Bin Abdullah Al Shalash	5,000,000	50,000,000
Inma Almadaen Company	4,000,000	40,000,000
Daem Al Khaleej Company	2,000,000	20,000,000
	100,000,000	1,000,000,000

23. STATUTORY RESERVE

As per the requirements of the Regulations for Companies in the Kingdom of Saudi Arabia, the Company has established a statutory reserve by the appropriation of at least 10% of net income until the reserve equalled to 30% of the share capital. This reserve is not available for dividend distribution. Under the new Regulations for Companies, which is effective 19 January 2023, The New Companies Law did not apply mandatory statutory reserve and allowed the company to decide on the required reserves which must be specified in the relevant bylaws.

24. DIVIDENDS DISTRIBUTION

On 29 May 2022, the Board of Directors, based on the authorization of the General Assembly held on 5 April 2022, resolved to approve a distribution of cash dividend of SR 77,400,000 (SR 0.774 per share) to the shareholders of the Company. The dividend was paid on 14 June 2022.

25. FINANCE INCOME

	2022	2021
Finance income on the net investment in finance leases	**250,171,352**	276,634,707
Finance income on murabaha receivables	**11,684,375**	772,924
	261,855,727	277,407,631

(Amounts in Saudi Riyals unless otherwise stated)

26. DIRECT COST

	2022	2021
Evaluation expenses	**2,569,977**	3,558,881
Insurance expenses	**22,340,905**	24,033,204
	24,910,882	27,592,085

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2022	2021
Employees' salaries and other benefits	**56,145,685**	49,122,123
Board of directors' remuneration	**4,616,000**	-
Consultation fees	**6,146,117**	4,161,122
Depreciation and amortisation	**4,550,158**	4,726,167
Software support charges	**2,569,818**	4,661,853
Collection Commission	**3,015,625**	2,691,025
VAT expense	**2,621,960**	3,834,307
Telecommunication expenses	**1,101,401**	942,739
Bank charges	**811,056**	446,982
Recruitment related expenses	**253,911**	428,947
Repairs and maintenance	**387,350**	408,415
Travel expenses	**321,848**	299,868
Printing and stationary	**77,347**	186,705
Withholding taxes	**63,021**	66,190
Impairment loss on other real estate	**-**	62,163
Others	**2,480,931**	1,978,320
	85,162,228	74,016,926

Other expense mainly includes training, subscription and various other expenses.

28. SELLING AND MARKETING EXPENSES

	2022	2021
Sales and title commission	**4,169,039**	4,386,514
Marketing expenses	**702,595**	273,039
Others	**997,570**	869,232
	5,869,204	5,528,785

29. EARNINGS PER SHARE

The basic earnings per share have been computed by dividing net profit for the year by the weighted average number of shares outstanding during the period. The calculation of diluted earnings per share is not applicable to the Company. The basic earnings per share are calculated as follows:

	2022	2021
Net income for the year	**95,889,625**	103,195,599
Weighted average number of ordinary shares	**100,000,000**	100,000,000
Basic and diluted earnings per share (expressed in SR per share)	**0.96**	1.03

30. FINANCIAL RISK MANAGEMENT

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Credit and Risk Management Committee, which has the responsibility to monitor the overall risk process within the Company.

The Credit and Risk Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Credit and Risk Management Committee is responsible for managing risk decisions and monitoring on risk levels and reports on a quarterly basis to the Board of Directors.

Credit risk

The Company manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise primarily in investments in finance lease and Murabaha receivables.

The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Company's risk management policies are designed to identify, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored on regularly basis.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company seeks to manage its credit risk exposure through diversification to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. Management monitors the market value of collateral obtained during its review of the adequacy of the impairment allowance for credit losses. The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

i. Credit quality analysis

The Company groups its net investments in finance lease and Murabaha receivables into Stage 1, Stage 2, Stage 3, as described below:

Stage 1: When the investments in finance lease and Murabaha receivables are first recognised, the Company recognises an allowance based on 12 months ECLs. Stage 1 investments in finance lease and Murabaha receivables also include those where the credit risk has improved and the investments in finance lease and Murabaha receivables has been reclassified from Stage 2.

Stage 2: When the investments in finance lease and Murabaha receivables has shown a significant increase in credit risk since origination, the Company records an allowance for the Lifetime ECL. Stage 2 investments in finance lease and Murabaha receivables also include those where the credit risk has improved and the investments in finance lease and Murabaha receivables has been reclassified from Stage 3.

Stage 3: Investments in finance lease and Murabaha receivables considered credit-impaired. The Company records an allowance for the Lifetime ECL.

ii. Generating the term structure of PD

Days past due is the primary input into the determination of the PD term structure. The Company collects performance and default information about its credit risk exposures, analyses the relationships between its historical default rates and macro-economic factors. The key macro-economic indicators are gross domestic product based on purchasing power parity, general government gross debt and general government total expenditure apart from the relationship of multiple variables which were tested and used in the development of macroeconomic overlaid PD term structures.

iii. Determining whether credit risk has increased significantly

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

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modelling, using its expert credit judgment and, where possible, relevant historical experience, the Company determines that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Any exposure for which there is a SICR since origination. The Company clearly defines what it considers to be SICR. Such indicators considered by SHL include:
- The borrower has a moderate risk of default;
- The payments are past due by more than 30 days;
- The borrower has a weak or deficient capacity to meet its contractual cash flow obligations in the near term; and
- Adverse changes in economic and business conditions in the longer term are more likely than not to reduce the borrower's ability to fulfil its obligations.
- The borrower has requested rescheduling of repayments as a financial support

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Amounts arising from ECL - Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default ("PD") as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

iv. Definition of 'Default'

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

In assessing whether a borrower is in default the Company considers indicators that are:

- The borrower has a high risk of default or has defaulted;
- The borrower has requested rescheduling of repayments as a financial support twice, or more;
- Past due more than 90 days;
- The borrower is deceased;
- The account is considered as fraudulent;
- The borrower has an inadequate capacity to meet contractual cash flow obligations due to financial difficulty in the near term;
- The collection of principals, commission income highly questionable and improbable; and
- Adverse changes in economic and business conditions in the near and longer term will only further negatively impact borrower's ability to fulfil obligations.

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

v. Incorporation of forward-looking information

The Company incorporates forward-looking information into its measurement of ECL. The expected credit losses have been determined using three different, forward-looking scenarios – Baseline, Upturn and Downturn. The ECL for each of the scenario is calculated and weighted by the likelihood of that scenario occurring.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Company has identified and documented key drivers of credit risk and credit losses for its portfolio and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. Listed below are the key independent variables selected on the basis of correlation used as at 31 December 2022.

- Crude Oil Price (Average of Brent, Dubai and WTI) in U.S. dollars
- Gross domestic product, current prices (National Currency)
- Total Investment (Percent of GDP)

The economic scenarios used as at 31 December 2022 and 2021 included the following ranges of key macroeconomic variables:

Macroeconomic variable	2022
Crude Oil Price (Average of Brent, Dubai and WTI) in U.S. dollars	Upside 30%
Gross domestic product, current prices (National Currency)	Base case 40%
Total Investment (Percent of GDP)	Downside 30%
Macroeconomic variable	**2021**
GDP based on purchasing-power-parity share of world total	Upside 30%
General government gross debt (% of GDP)	Base case 40%
General government total expenditure (% of GDP)	Downside 30%

Predicted relationships between the key indicators and default and loss rates on investment in finance leases and murabaha receivables have been developed based on analyzing historical data over the past 10 years. The Company has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Macroeconomic variable	Forecast calendar years used in 2022 ECL model		
	2022	2023	2024
Crude Oil Price (Average of Brent, Dubai and WTI) in U.S. dollars	85.5	80.2	76.2
Gross domestic product, current prices (National Currency)(billions)	3,736.5	3,812.6	3,915.9
Total Investment (Percent of GDP)	22.5	23.8	24.7

The ECL is sensitive to the above macroeconomic variable, hence, changes to these variables would lead to changes in the provisions of the Company.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Company should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the year-end:

Assumptions sensitized	Impact to the 2022 ECL - increase/ (decrease)
Macro-economic factors:	
Decrease in Crude Oil Price (Average of Brent, Dubai and WTI) in U.S. dollars by 10%	8,600
Decrease in Gross domestic product, current prices (National Currency) by 10%	553,322
Decrease in Total Investment (Percent of GDP) by 10%	96,388
Scenario weightages:	
Base scenario reduced by -10% with corresponding change in downside	445,697
Base scenario reduced by -10% with corresponding change in upside	(86,995)

Assumptions sensitized	Impact to the 2021 ECL - increase/ (decrease)
Macro-economic factors:	
Decrease in GDP based on purchasing-power-parity share of world total by 10%	3,049,144
Increase in general government gross debt by 10%	370,257
Decease in general government total expenditure by 10%	14,472

(Amounts in Saudi Riyals unless otherwise stated)

Scenario weightages:	
Base scenario reduced by -10% with corresponding change in downside	431,095
Base scenario reduced by -10% with corresponding change in upside	(16,196)

vi. Measurement of ECL

The key inputs into the measurement of ECL are the following risk estimates:
i. probability of default (PD);
ii. loss given default (LGD); and
iii. exposure at default (EAD).

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored for high-net-worth individuals' portfolio. These rating models are based on both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. Furthermore, the PD term structure is estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD based on the history of recovery rates of claims against defaulted counterparties. LGD estimation considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the investment in finance lease receivables and Murabaha receivables. Due to sparse historical defaults, the quantitative LGD estimates are adjusted based on expert judgement to arrive at the 25% final haircut of the collateral value.

EAD represents the expected exposure in the event of a default. The EAD of net investment in finance leases and murabaha receivables are the outstanding principal and earned but not yet collected profit for each contract.

During the year, the Company performed ECL model validation exercise which resulted to the following updates in the model. This model is in use for retail portfolio only.

Parameter	**Update**
PD model	12 Quarters (Sep'18 to Jun'21) of historical data is now used for the new model. Since additional 4 quarters of data is available. The TTC PD will be more reliable and stable.
Macroeconomic model	Multiple linear regression was performed with the latest available data.
LGD model	The model is updated with the latest available data leading to update of cure rates and recovery rates and ultimately more relevant LGD values pertaining to each customer. 80 % Possession Rate applied based on historical data. Cost of recovery and time to liquidate is data driven now and has been updated to 2.3% and 2.8 years respectively.
EAD	Next 3 months' finance income from reporting date are added to the principal amount for stages 1 & 2 to compute EAD.
ECL	Stage 3 deceased pending cases were introduced under the ECL framework with a 100% LGD same as Deceased Rejected cases. However, an insurance claim rejection rate (26%) was introduced to account for the probability of getting a rejection on the insurance coverage claim by insurance companies. The rate was based on the number of rejected cases since 2010.

As of 31 December 2022, a separate ECL model for commercial contracts portfolio was implemented. The parameters and methodology used are explained as below;

Parameter	**Methodology**
PD model	PD computed for IFRS 9 purposes is a 'point-in-time' (PIT) estimate, as it is reflective of current macroeconomic conditions, as opposed to a long-term average PD (TTC) computed through the macroeconomic cycle, used more commonly under the Basel Internal Rating Based (IRB) approach. Since the Company has recently initiated commercial contracts portfolio, the default rate data for developing PIT PD model is not available. Hence, in order to develop PIT PD models, default rates for commercial real estates was sourced based on the peer analysis of the industry in Saudi Arabia. This information has been provided by a third-party consultant with significant experience of working with financial institutions in Saudi Arabia. The third-party consultant has provided aggregate anonymized data that is based on its experience.
Macroeconomic model	For the purpose of creating macroeconomic models, the macroeconomic factors/ variables are used as independent factors. The data for the systemic factors is obtained from International Monetary Fund ("IMF"). IMF dataset provides annual data for macroeconomic variables for the time period from 2000-2026. The macroeconomic variables used in this model are as follows: 1- Crude Oil 2- GDP Percent change The correlation of the above two variables were used to arrive at the weights for creating a composite index which is then used as single risk factor in the vasicek equation to arrive at the PIT PD values. Vasicek technique has been used to develop PIT PD model. In this process, the dependent variable is the default rate and the independent variables are the macro variables. The macro variable was selected on the basis of business intuition.
LGD model	In order to arrive at the LGD values, the exposures were split into two portions, namely, collateralized and uncollateralized exposures. The collateralized exposures are the % of exposure that are backed by the collateral values post the haircut. While the remaining exposure is uncollateralized, which is the unsecured exposure. The LGD applied to the two portions are as follows: Exposure Split — LGD Secured Portion — 20% Unsecured Portion — 40% The haircut applied to the collateralized exposures is 40% with possession rate of 60%.

Parameter	**Methodology**
	The haircut estimates for the commercial real estate and the unsecured LGD are based on the 'Basel III: Finalising post-crisis reforms'
EAD	Exposure At Default (EAD) is amount of money a lender is exposed to when a borrower defaults. For term loans EAD is estimated by using the amortization schedule for the residual maturity of the borrowers. EAD is the computed using the reducing balances technique at a quarterly frequency. *Exposure at Default All Stages = Principal Outstanding + 3 months' accrued Interest*
ECL	The amount of ECLs recognized as a loss allowance depends on the extent of credit deterioration since initial recognition. The guidelines prescribe a general approach wherein ECLs are calculated as per risk pertaining to the segment of portfolio and severity of default/ risk of default. This three-stage approach has been followed for the portfolio categorization and the computations for the ECL happens at the facility level.

The overall ECL for commercial portfolio is SAR 1.5 million represents 0.39% of the exposure the details are as below:

	12-month ECL
Exposure at default	395,137,340
Allowance for ECL	(1,533,860)
Net carrying amount	393,603,480

SR 1.25 million represents ECL against investment in finance lease and SR 0.28 million against Murabaha receivables.

Loss allowance

The following table shows reconciliations from the opening to the closing balance of the gross carrying amount of the investment in finance lease, Murabaha receivables and related loss allowance accounts.

(Amounts in Saudi Riyals unless otherwise stated)

Investment in finance lease

		Lifetime ECL as at 2022		
Investments in finance lease – gross	**12 Month ECL**	**Not credit Impaired**	**Credit impaired**	**Total**
Opening balance at 1 January	3,553,703,370	283,026,792	240,576,170	4,077,306,332
Transfer to 12 Month ECL	58,177,141	(58,177,141)	-	-
Transfer to Lifetime ECL (not credit impaired)	(77,102,349)	109,353,320	(32,250,971)	-
Transfer to Lifetime ECL (credit impaired)	-	(33,716,792)	33,716,792	-
Ijara receivables that have been derecognized during the year	(35,584,648)	-	-	(35,584,648)
New originations during the year	447,158,572	-	-	447,158,572
Receivable written off	-	-	(5,092,155)	(5,092,155)
Net change for the year	(525,574,351)	(48,474,359)	(63,978,041)	(638,026,751)
Closing balance	3,420,777,735	252,011,820	172,971,795	3,845,761,350

		Lifetime ECL as at 2022		
Loss allowance	**12 Month ECL**	**Not credit Impaired**	**Credit impaired**	**Total**
Opening balance at 1 January	1,433,526	6,905,996	55,663,716	64,003,238
Transfer to 12 Month ECL	25,124	(25,124)	-	-
Transfer to Lifetime ECL (not credit impaired)	(335,594)	678,317	(342,723)	-
Transfer to Lifetime ECL (credit impaired)		(774,606)	774,606	-
Ijara receivables that have been derecognized during the year	(28,897)	-	-	(28,897)
New originations during the year	1,562,634	-	-	1,562,634
Provision written off	-	-	(5,092,155)	(5,092,155)
Net change for the period	(388,137)	557,104	(29,558,235)	(29,389,268)
Closing balance	2,268,656	7,341,687	21,445,209	31,055,552

The net reduction during the year in the loss allowance were caused predominantly by improved collateral values used in estimating loss given default as well as improved collections. Further, there is decrease in the volume of portfolio as mentioned in note 10. Finally, due to overall improvement in the general economic condition in Saudi Arabia and stability measures undertaken by SAMA, there is a reduction in the loss allowance.

(Amounts in Saudi Riyals unless otherwise stated)

		Lifetime ECL as at 2021		
Investments in finance lease - gross	12 Month ECL	Not credit Impaired	Credit impaired	Total
Opening balance at 1 January	3,623,423,812	382,231,466	275,913,499	4,281,568,777
Transfer to 12 Month ECL	478,671,417	(292,043,648)	(186,627,769)	-
Transfer to Lifetime ECL (not credit impaired)	(210,127,661)	231,276,221	(21,148,560)	-
Transfer to Lifetime ECL (credit impaired)	(127,000,617)	(22,330,332)	149,330,949	-
Ijara receivables that have been derecognized during the year	(213,760,505)	(3,898,011)	-	(217,658,516)
Net change for the year	2,496,923	(12,208,903)	23,108,051	13,396,071
Closing balance	3,553,703,369	283,026,793	240,576,170	4,077,306,332

		Lifetime ECL as at 2021		
Loss allowance	12 Month ECL	Not credit Impaired	Credit impaired	Total
Opening balance at 1 January	2,154,938	13,008,217	67,267,114	82,430,269
Transfer to 12 Month ECL	82,508	(75,338)	(7,170)	-
Transfer to Lifetime ECL (not credit impaired)	(59,679)	329,919	(270,240)	-
Transfer to Lifetime ECL (credit impaired)	(20,446)	(895,495)	915,941	-
Reversal for the year	(723,796)	(5,461,307)	(12,241,928)	(18,427,031)
Closing balance	1,433,525	6,905,996	55,663,717	64,003,238

Murabaha receivables

		Lifetime ECL as at 2022		
Murabaha receivables - gross	**12 Month ECL**	**Not credit Impaired**	**Credit impaired**	**Total**
Opening balance at 1 January	**74,857,128**	-	-	**74,857,128**
Transfer to 12 Month ECL	-	-	-	-
Transfer to Lifetime ECL (not credit impaired)	**(18,455,349)**	**18,455,349**	-	-
Transfer to Lifetime ECL (credit impaired)	-	**(9,737,370)**	**9,737,370**	-
New originations during the year	**245,483,435**	-	-	**245,483,435**
Net change for the year	**(2,927,614)**	**(14,033)**	**(8,279,067)**	**(11,220,714)**
Closing balance	**298,957,600**	**8,703,946**	**1,458,303**	**309,119,849**

(Amounts in Saudi Riyals unless otherwise stated)

Loss allowance	**12 Month ECL**	**Lifetime ECL as at 2022** Not credit Impaired	**Credit impaired**	**Total**
Opening balance at 1 January	70,991	-	-	70,991
Transfer to 12 Month ECL	-	-	-	-
Transfer to Lifetime ECL (not credit impaired)	(405,937)	405,937	-	-
Transfer to Lifetime ECL (credit impaired)	-	(149,792)	149,792	-
New originations during the year	794,000	-	-	794,000
Net change for the year	(22,546)	122,601	40,473	140,528
Closing balance	**436,508**	**378,746**	**190,265**	**1,005,519**

Murabaha receivables - gross	12 Month ECL	Lifetime ECL as at 2021 Not credit Impaired	Credit impaired	Total
Opening balance at 1 January	-	-	-	-
Net change for the year	74,857,128	-	-	74,857,128
Closing balance	74,857,128	-	-	74,857,128

Loss allowance	12 Month ECL	Lifetime ECL as at 2021 Not credit Impaired	Credit impaired	Total
Opening balance at 1 January	-	-	-	-
Net change for the year	70,991	-	-	70,991
Closing balance	70,991	-	-	70,991

The net increase during the year in the loss allowance is caused predominantly by increase in the volume of the portfolio as mentioned in note 11. As of December 31, 2021, the portfolio was fairly new, however, with the passage of time and increase in overdue balances, the loss allowance has also increased.

Below is the break-up of reversal of allowance for expected credit losses recognized during the year:

	2022	2021
Reversal of allowance - investment in finance lease (note 10)	**(27,855,531)**	(18,427,031)
Charge for the year - Murabaha receivables (note 11)	**934,528**	70,991
Charge for the year - insurance claims receivable, deceased cases (note 8)	**1,702,520**	9,516,086
Impairment loss on other real estate (note 14)	**1,484,675**	-
Allowance against receivable under litigation (note 8)	**396,978**	-
Insurance claims receivable written off (note 8)	**1,879,191**	-
Total	**(21,457,639)**	(8,839,954)

Collateral

The Company in the ordinary course of lending activities hold collateral as security to mitigate credit risk in the investments in finance lease portfolio and Murabaha receivables. This collateral mostly include financial guarantees and titles/pledges of real estate properties. The collateral is managed against relevant exposures at their net realizable values. For investment in finance leases and Murabaha receivables that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

The amount of collateral held as security for investments in finance lease and Murabaha receivables that are credit impaired as at 31 December are as follows. The Company has a policy to value every year, all real estate properties leased out under stage 3, by involving approved appraisers.

	Fair value	
Loan to Value (SR '000)	**2022**	2021
Less than 50%	**9,795**	14,830
51-70%	**70,183**	58,174
More than 70%	**98,932**	109,957
Total	**178,910**	182,961

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

Management monitors the maturity profile of the Company's assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date to ensure that adequate liquidity is maintained. All liabilities are contractually payable on a current basis. The table below shows an analysis of undiscounted amount of non-derivative financial assets and liabilities according to their contractual maturities.

2022	No contractual maturity	Within 3 months	3-12 months	2-5 years	Over 5 years	Total
Assets						
Cash and bank balances	22,847,283	20,000,000	-	22,200,000	20,000,000	85,047,283
Investment held at FVOCI	892,850	-	-	-	-	892,850
Invest. in finance lease (gross)	-	135,588,075	314,398,168	2,028,107,576	3,365,403,591	5,843,497,410
Murabaha receivables	-	10,106,826	27,303,922	133,082,911	309,620,087	480,113,746
Other receivables, net	5,387,365	8,445,593	3,295,352	14,484,659	-	31,612,969
Due from a related party	-	593,004	-	-	-	593,004
Total assets	29,127,498	174,733,498	344,997,442	2,197,875,146	3,695,023,678	6,441,757,262

2022	No contractual maturity	Within 3 months	3-12 months	2-5 years	Over 5 years	Total
Liabilities						
Tawarruq financing facilities	-	484,806,410	783,902,166	1,045,244,352	237,315,589	2,551,268,518
Accounts payable and other liabilities	5,387,365	6,721,583	-	-	-	12,108,948
Lease liability	-	2,393,401	2,236,421	876,517	-	5,506,339
Total liabilities	5,387,365	493,921,394	786,138,587	1,046,120,869	237,315,589	2,568,883,805
Net	23,740,133	(319,187,896)	(441,141,145)	1,151,754,277	3,457,708,089	3,872,873,457

(Amounts in Saudi Riyals unless otherwise stated)

2021	No contractual maturity	Within 3 months	3-12 months	2-5 years	Over 5 years	Total
Assets						
Cash and bank balances	183,984,147	-	-	22,200,000	20,000,000	226,184,147
Investment held at FVOCI	892,850	-	-	-	-	892,850
Invest. in finance lease (gross)	-	138,223,389	411,219,408	2,016,022,472	3,635,049,670	6,200,514,939
Murabaha receivables	-	1,756,084	5,268,253	28,097,347	80,722,912	115,844,596
Other receivables, net	5,387,365	3,668,085	22,715,740	5,108,449	-	36,879,639
Due from a related party	-	739,733	-	-	-	739,733
Total assets	190,264,362	144,387,291	439,203,401	2,071,428,268	3,735,772,582	6,581,055,904

2021	No contractual maturity	Within 3 months	3-12 months	2-5 years	Over 5 years	Total
Liabilities						
Tawarruq financing facilities	-	130,029,396	576,869,289	1,688,860,240	257,315,590	2,653,074,515
Accounts payable	5,387,365	2,030,036	-	-	-	7,417,401
Lease liabilities	-	1,978,839	2,237,990	2,536,662	-	6,753,491
Total liabilities	5,387,365	134,038,271	579,107,279	1,691,396,902	257,315,590	2,667,245,407
Net	184,876,997	10,349,020	-139,903,878	380,031,366	3,478,456,992	3,913,810,497

Market risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as commission rates, and foreign exchange rates.

Interest rate risks

The Company is exposed to interest rate risk because the Company has borrowings at floating interest rates. The Company also has variable interest rate-based investment in finance leases, however these are not indexed to any benchmark.

The Company's exposures to interest rates are detailed in the liquidity risk section of this note .
The Company is exposed to USD LIBOR (one lender only) and SAIBOR.

The management is in discussion with lenders on transition to Risk Free Rates ("RFRs").

The Company has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by the IBOR regulators .

The FCA has confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative :

- Immediately after December 31, 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings
- Immediately after June 30, 2023, in the case of the remaining US dollar settings

In response to the announcements, the Company is awaiting the lender to initiate discussion on alternative benchmark.

(Amounts in Saudi Riyals unless otherwise stated)

Risks arising from the interest rate benchmark reform

The following are the key risks for the Company arising from the transition.

1. Interest rate basis risk: There are two elements to this risk as outlined below.

- If the bilateral negotiations with the Company's counterparties are not successfully concluded before the cessation of LIBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into and is not captured by the Company's interest rate risk management strategy

2. Liquidity risk: There are fundamental differences between LIBORs and the various alternative benchmark rates which the Company will be adopting. LIBORs are forward-looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments which will require additional liquidity management. The Company will update the liquidity risk management policy to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

3. Litigation risk: If no agreement is reached to implement the interest rate benchmark reform on existing contracts, (e.g. arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Company is working closely with all counterparties to avoid this from occurring.

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Company's statement of profit or loss and other comprehensive income over the next 12 month.

	Increase/ decrease in basis points	2022	2021
Variable interest rate-based	+10	**193,268**	337,790
Investment in finance lease	-10	**(193,268)**	(337,790)

	Increase/ decrease in basis points	2022	2021
	+10	**2,024,290**	1,983,405
Tawarruq financing facilities	-10	**(2,024,290)**	(1,983,405)

The Company's sensitivity to interest rates variation on Tawarruq financing facilities has increased during the current year mainly due to the increase in interest rates in the market.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars and both currencies are pegged.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial instruments comprise mainly of cash and bank, due from a related party, other receivables, investment held at FVOCI, derivative financial instrument, investments in finance leases, murabaha receivables, Tawarruq financing facilities, accounts payable and lease liabilities.

All financial assets and financial liabilities are measured at amortized cost except for derivative financial instrument classified as FVTPL.
Investment classified as held at FVOCI is measured at cost as measurement of fair value would entail undue cost and efforts and any changes are not expected to be material to the condensed interim financial statements.

Tawarruq financing facilities bear floating rate of interest based on market variable rates and hence, there is no significant difference between the carrying value and fair value.

The fair values of the financial instruments are not materially different from their carrying amounts except for the finance lease receivables and Murabaha receivables measured at amortized cost.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair value of interest rate swaps is generally calculated using level 2 techniques as the present value of the estimated future cash flows using the curves at the reporting date and adjusted to reflect the credit risk of the counterparties.

32. CAPITAL MANAGEMENT

The Company manages and controls its capital structure and liquidity needs in order to safeguard the Company's ability to meet its future obligations and growing plans and continue as a going concern. The Company monitors the adequacy of its capital using below measures:

	2022	2021
Capital ratio	**22.89**	22.53

The capital ratio above is calculated by dividing the Company's total share capital with the weighted average total assets of the Company as at year-end.

(Amounts in Saudi Riyals unless otherwise stated)

The Company also raised Tawarruq financing to fund investments in finance lease and to help achieve the differential between cost of funds and financing income from net investment in finance leases.

The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Regulations for Companies and SAMA. SAMA requires finance Companies engaged in financing of real estate, to not exceed aggregate financing to capital ratio of five times.

	2022	2021
Aggregate financing to capital ratio	**2.41 times**	2.42 times
(Net investment in finance lease and Murabaha receivables divided by total shareholders' equity)		

33. CONTINGENT LIABILITIES

The Company is, from time to time, a defendant in lawsuits in respect of leased properties and receivables. Some of these suits make no specific claim for relief. Although final determination of any liability and resulting financial impact with respect to any such matters cannot be ascertained with any degree of certainty, management does not believe that any ultimate uninsured liability resulting from these matters in which it is currently involved will individually, or in the aggregate, have a material adverse effect on the financial position, liquidity or results of operations of the Company. Further, the Company is also a plaintiff in a number of law suits mainly relating to eviction from properties and maintenance claim where any expected recovery, representing a contingent assets has not been recognized but adequate and sufficient provision has been recognized as of the reporting date.

34. COMPARATIVE FIGURES

During the year, the Company identified adjustments to reported balances in prior years. In accordance with the requirements of IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", these have been accounted for as correction of error and the comparative figures have been reclassified. The details of these adjustments are below:

Statement of financial position:

December 31, 2021	**As previously reported**	**Reclassification**	**Reclassified**
Cash and cash equivalents (note a)	214,467,647	(30,483,500)	183,984,147
Advances to property owners (note a)	11,716,500	(11,716,500)	-
Restricted bank balances (note e)	-	42,200,000	42,200,000
Prepaid expenses and other assets (note b)	9,953,914	(3,348,312)	6,605,602
Provision for Zakat and income tax (note b)	22,618,176	(3,348,312)	19,269,864
Total assets (note b)	4,408,032,236	(3,348,312)	4,404,683,924
Total liabilities (note b)	2,718,098,108	(3,348,312)	2,714,749,796

(Amounts in Saudi Riyals unless otherwise stated)

Statement of profit or loss and other comprehensive income:

December 31, 2021	As previously reported	Reclassification	Reclassified
Origination expenses (note c)	-	(3,847,967)	(3,847,967)
Total Revenue (note c)	294,220,093	(3,847,967)	290,372,126
Total operating income (note c)	295,234,658	(3,847,967)	291,386,691
Direct cost (note d)	-	27,592,085	27,592,085
General & Administrative expenses (note d(ii))	98,050,130	(24,033,204)	74,016,926
Selling and marketing expenses (note c and d(i))	12,935,633	(7,406,848)	5,528,785
Total operating expenses (note c)	176,223,210	(3,847,967)	172,375,243

Statement of cash flows:

December 31, 2021	As previously reported	Reclassification	Reclassified
Advances to property owners	4,942,509	(4,942,509)	-
Prepaid expenses and other assets	2,212,970	3,348,312	5,561,282
Zakat and income tax paid	(17,407,460)	(3,348,312)	(20,755,772)
Net cash generated from operating activities	317,503,528	4,942,509	322,446,037
Net increase in cash and cash equivalents	72,139,665	4,942,509	77,082,174
Cash and cash and equivalents at the beginning of the year (note a and e)	142,327,982	(35,426,009)	106,901,973
Cash and cash and equivalents at the end of the year (note a and e)	214,467,647	(30,483,500)	183,984,147

a. Advances to owners

This represents certified cheques in hand as of year-end. These certified cheques can be cancelled by the Company at any time upon presenting the original certified cheques at the bank. As such, these instruments qualified to be cash and cash equivalent and the management has now reclassified these balances accordingly.

b. Offsetting of tax payable with advance tax paid

Advance tax paid is reclassified and offset with tax payable as the Company makes net settlement with tax authorities.

c. Origination expenses

Origination expenses of SR 3,847,967 represents transaction costs directly related to contracts entered into by the Company and represents integral costs. These were previously presented as selling and marketing expenses. In accordance with IFRS 9, such transaction costs, representing fee paid, makes part of effective interest rate calculation. Consequentially, management has now presented this cost as a reduction from revenue during the year.

(Amounts in Saudi Riyals unless otherwise stated)

d. Direct costs

Direct costs includes

(i) Evaluation expenses of SR 3,558,881 incurred when entering into the contract for property and customer evaluation. Evaluation expenses were previously presented as selling and marketing expenses but relates directly to Company's leasing activities.

(ii) Insurance expenses of SR 24,033,204 represents cost Company incurs for properties it owns and leased to customers. Insurance expenses were previously presented as general and administrative expenses but relates directly to Company's leasing activities.

Management has now classified these expenses as direct costs.

e. Cash and cash equivalents

Restricted bank balances of SR 42,200,000 as at 31 December 2021 has now been presented separately as restricted bank balances on the statement of financial position. Consequentially, the cash and cash equivalents as at the beginning of previous year has been adjusted by SR 35,426,009 (SR 42,200,000, being restricted bank balance at 31 December 2020 net of reclassification of advances to owners of SR 6,773,991)

The above reclassification had no effect on the profit reported in the statement of profit or loss and other comprehensive income for the year ended 31 December 2021, Therefore, the statement of financial position as of the beginning of year ended 31 December 2021 was not presented in these financial statements.

35. NON-CASH CHANGES

	2022	2021
Additions to lease liability and right of use assets	**931,149**	5,774,298

36. SEGMENT REPORTING

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

The Company carries out its activities entirely in the Kingdom of Saudi Arabia and is mainly engaged in providing real estate financing.

37. BOARD OF DIRECTORS APPROVAL

These financial statements were authorised for issue by the Board of Directors through their resolution approved by circulation dated February 28, 2023.