

**SHL FINANCE COMPANY**  
(FORMERLY SAUDI HOME LOANS COMPANY)  
(A SAUDI JOINT STOCK COMPANY)

**FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2023**

**SHL FINANCE COMPANY**  
(FORMERLY SAUDI HOME LOANS COMPANY)  
(A SAUDI JOINT STOCK COMPANY)

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2023**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders  
SHL Finance Company (Formerly 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 SHL Finance Company (Formerly Saudi Home Loans Company) (A Saudi Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2023, 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 material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023, 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 ("ISAs") 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 International Code of Ethics for Professional Accountants (including International Independence Standards) ("the Code") as 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 the requirements of the Code. 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 2023. 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
<b>Expected credit loss allowance</b>  As at 31 December 2023, the Company's exposure to investments in finance leases and Murabaha receivables was SR 4.183 billion which represented 96% of the total assets. The expected credit loss ("ECL") allowance was SR 29 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 relevant controls within these processes to determine if they had been appropriately designed and implemented.

**INDEPENDENT AUDITOR’S REPORT - Continued**

To the Shareholders  
SHL Finance Company (Formerly Saudi Home Loans Company)  
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**Key Audit Matters - continued**

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p>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 this financial instrument.</p> <p>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.</p> <p>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.</p> <p>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 .</p> <p>The Saudi Central Bank (“SAMA”) rules governing credit risk exposure classification and provisioning has been incorporated in the Company’s measurement of ECL.</p>	<p>We also determined if the manual controls in the following areas had been appropriately designed and implemented:</p> <ul style="list-style-type: none"> <li>• the review and approval of the output of the ECL model; and</li> <li>• the recognition and measurement of impairment allowances</li> </ul> <p>We also assessed the following:</p> <ul style="list-style-type: none"> <li>• the staging and SICR policy and the definition of default against the requirements of IFRSs and SAMA guidelines;</li> <li>• 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;</li> <li>• the methodology to determine PD, LGD and EAD</li> <li>• whether the risk component models had been validated and/or re-calibrated;</li> <li>• the macroeconomic scenarios weights and indicators used; and</li> <li>• the ECL computation of a sample of exposures.</li> </ul> <p>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.</p> <p>We also</p> <ul style="list-style-type: none"> <li>• assessed the skills, competence, independence and objectivity of the external expert engaged for external validation of the ECL model; and</li> <li>• reviewed the terms of their engagement letter with the Company to determine if the scope of their work was sufficient for audit purposes.</li> </ul> <p>We considered the process of this external validation of the ECL model and its impact on the results of the impairment estimate.</p>

**INDEPENDENT AUDITOR’S REPORT - Continued**

To the Shareholders  
SHL Finance Company (Formerly Saudi Home Loans Company)  
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Riyadh, Saudi Arabia

**Key Audit Matters - continued**

Key audit matter	How our audit addressed the key audit matter
<p>The audit of the 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 ECL models. These include, inter alia, the classification of exposures into stages.</p> <p>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 exposures.</p>	<p>We utilised our internal specialists to assist us in reviewing the ECL model calculations and assumptions and evaluating related inputs .</p> <p>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.</p>

**Other Information**

Other information consists of the information included in the 2023 annual Board of Directors report and the Company’s 2023 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 2023 annual Board of Directors report and Company’s 2023 annual report. The final 2023 annual Board of Directors report and Company’s 2023 annual report are 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.

**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  
SHL Finance Company (Formerly Saudi Home Loans Company)  
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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  
SHL Finance Company (Formerly Saudi Home Loans Company)  
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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


22 Shaban 1445H  
3 March 2024

**SHL FINANCE COMPANY**  
(FORMERLY SAUDI HOME LOANS COMPANY)  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2023**  
(Amounts in Saudi Riyals unless otherwise stated)

	Notes	2023	2022
<b>ASSETS</b>			
Cash and cash equivalents	5 & 6	80,272,437	42,847,283
Due from a related party	6	503,862	593,004
Prepaid expenses and other assets	7	9,447,308	7,675,313
Other receivables, net	8	25,638,655	31,612,969
Deferred origination fees	12	12,105,224	14,375,181
Investments in finance leases, net	10	3,605,570,797	3,814,705,798
Murabaha receivables, net	11	577,588,219	308,114,330
Positive fair value of derivative financial instrument	6 & 14	26,947,418	31,132,519
Investment held at fair value through other comprehensive income ("FVOCI")	9	892,850	892,850
Other real estate, net	13	34,263,957	21,983,608
Right-of-use asset, net		2,860,490	5,409,480
Property and equipment, net		3,891,281	3,346,654
Intangible assets, net		1,618,999	2,023,276
Deferred tax	19	1,756,555	1,917,078
Restricted bank balances	5	-	42,200,000
<b>TOTAL ASSETS</b>		<b>4,383,358,052</b>	<b>4,328,829,343</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Accounts payable and other liabilities	16	14,521,569	12,108,948
Accrued expenses and other liabilities	17	15,027,627	18,990,966
Advance lease rentals		11,182,933	9,535,190
Lease liability		2,683,849	5,506,339
Provision for zakat and income tax	18	525,957	12,969,728
Tawarruq financing facilities	20	2,667,085,488	2,551,268,518
End of service benefits liability	21	11,677,144	9,731,569
<b>Total liabilities</b>		<b>2,722,704,567</b>	<b>2,620,111,258</b>
<b>Shareholders' equity</b>			
Share capital	22	1,000,000,000	1,000,000,000
Statutory reserve	23	126,301,232	126,068,592
Other reserves		1,732,912	2,123,908
Retained earnings		532,619,341	580,525,585
<b>Total shareholders' equity</b>		<b>1,660,653,485</b>	<b>1,708,718,085</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>4,383,358,052</b>	<b>4,328,829,343</b>
<b>CONTINGENCIES</b>	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 36 form an integral part of these financial statements



**SHL FINANCE COMPANY**  
(FORMERLY SAUDI HOME LOANS COMPANY)  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2023**  
(Amounts in Saudi Riyals unless otherwise stated)

	Notes	2023	2022
Finance income	25	297,915,434	261,855,727
Service fees, net	15	4,363,512	5,607,965
Application and evaluation fee income		491,512	1,730,008
Asset sale income		-	309,556
Origination expenses	12	(2,269,957)	(3,829,663)
<b>Total revenue</b>		<b>300,500,501</b>	<b>265,673,593</b>
Fair value (loss)/gain on derivative financial instrument	14	(4,185,101)	31,132,519
Other income		6,917,258	2,327,101
<b>Total operating income</b>		<b>303,232,658</b>	<b>299,133,213</b>
Direct cost	26	(21,542,591)	(24,910,882)
Finance charges	20	(187,848,859)	(106,706,161)
General and administrative expenses	27	(92,273,684)	(85,162,228)
Impairment allowances and write offs	30	3,664,405	21,457,639
Selling and marketing expenses	28	(2,341,479)	(5,869,204)
<b>Total operating expenses</b>		<b>(300,342,208)</b>	<b>(201,190,836)</b>
<b>Net income before zakat and income tax</b>		<b>2,890,450</b>	<b>97,942,377</b>
Zakat and income tax	18	(2,716,474)	(10,434,505)
Income tax refund for previous periods	18	2,312,943	10,867,005
Deferred tax	19	(160,523)	(2,485,252)
<b>Net income for the year</b>		<b>2,326,396</b>	<b>95,889,625</b>
<b>Other comprehensive income</b>			
<i>Item that cannot be reclassified to statement of Profit or loss in subsequent periods</i>			
Actuarial (losses)/gains on end of service benefits	21	(390,996)	294,332
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>1,935,400</b>	<b>96,183,957</b>
<b>Basic and diluted earnings per share (Saudi Riyal)</b>	29	<b>0.02</b>	<b>0.96</b>

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
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**SHL FINANCE COMPANY**  
(FORMERLY SAUDI HOME LOANS COMPANY)  
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**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(Amounts in Saudi Riyals unless otherwise stated)

Notes	For the year ended 31 December 2023				Total equity
	Share capital	Statutory reserve	Other reserve	Retained earnings	
	1,000,000,000	126,068,592	2,123,908	580,525,585	1,708,718,085
21	-	-	-	2,326,396	2,326,396
	-	-	(390,996)	-	(390,996)
	-	-	(390,996)	2,326,396	1,935,400
23	-	232,640	-	(232,640)	-
24	-	-	-	(50,000,000)	(50,000,000)
	<b>1,000,000,000</b>	<b>126,301,232</b>	<b>1,732,912</b>	<b>532,619,341</b>	<b>1,660,653,485</b>

Notes	For the year ended 31 December 2022				Total equity
	Share capital	Statutory reserve	Other reserve	Retained earnings	
	1,000,000,000	116,479,630	1,829,576	571,624,922	1,689,934,128
21	-	-	-	95,889,625	95,889,625
	-	-	294,332	-	294,332
	-	-	294,332	95,889,625	96,183,957
23	-	9,588,962	-	(9,588,962)	-
24	-	-	-	(77,400,000)	(77,400,000)
	<b>1,000,000,000</b>	<b>126,068,592</b>	<b>2,123,908</b>	<b>580,525,585</b>	<b>1,708,718,085</b>

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 36 form an integral part of these financial statements

**SHL FINANCE COMPANY**  
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**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2023**  
(Amounts in Saudi Riyals unless otherwise stated)

	2023	2022
<b>OPERATING ACTIVITIES</b>		
Net income before zakat and income tax	2,890,450	97,942,377
<i>Adjustments to reconcile net income to net cash generated from operating activities:</i>		
Depreciation and amortisation	4,455,248	4,550,158
Amortisation of deferred origination fees	2,269,957	3,829,663
Fair value loss/(gain) on derivative financial instrument	4,185,101	(31,132,519)
Reversal of impairment allowances and write offs, net	(3,664,405)	(21,457,639)
Provision for end of service benefits	2,144,586	1,835,647
Amortisation of lease liability	295,550	339,739
Finance charges	187,848,859	106,706,161
	<b>200,425,346</b>	<b>162,613,587</b>
<i>Net (increase)/decrease in operating assets:</i>		
Due from a related party	89,142	146,729
Prepaid expenses and other assets	(2,939,254)	772,346
Other receivables	2,350,465	1,287,981
Investments in finance lease	200,631,593	211,620,763
Murabaha receivables	(271,532,950)	(234,262,721)
Restricted bank balance	42,200,000	-
<i>Net increase/(decrease) in operating liabilities:</i>		
Accounts payable and other liabilities	2,412,621	4,691,547
Accrued expenses and other liabilities	(3,963,339)	7,324,040
Advance lease rentals	1,647,743	1,566,004
	<b>171,321,367</b>	<b>155,760,276</b>
<b>Net cash from operations</b>		
Zakat and income tax paid	(13,992,986)	(18,576,698)
Income tax refund for previous periods	7,883,317	10,867,005
End of service benefits paid	(590,007)	(408,159)
<b>Net cash generated from operating activities</b>	<b>164,621,691</b>	<b>147,642,424</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,627,599)	(270,211)
Disposal of property and equipment	-	11,428
Purchase of intangible assets	(419,009)	(90,307)
<b>Net cash used in investing activities</b>	<b>(2,046,608)</b>	<b>(349,090)</b>
<b>FINANCING ACTIVITIES</b>		
Additions in Tawarruq financing facilities	455,000,000	150,000,000
Repayment of Tawarruq financing facilities	(344,569,823)	(254,875,200)
Finance charges paid	(182,462,066)	(103,636,958)
Lease liability paid – principal portion	(2,822,490)	(2,178,301)
Lease liability paid – interest portion	(295,550)	(339,739)
Dividends paid	(50,000,000)	(77,400,000)
<b>Net cash used in financing activities</b>	<b>(125,149,929)</b>	<b>(288,430,198)</b>
<b>Net change in cash and cash equivalents (see note 34 for non-cash changes)</b>	<b>37,425,154</b>	<b>(141,136,864)</b>
Cash and cash equivalents at beginning of the year	42,847,283	183,984,147
<b>Cash and cash equivalents at end of the year</b>	<b>80,272,437</b>	<b>42,847,283</b>

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 36 form an integral part of these financial statements

**SHL FINANCE COMPANY**  
(FORMERLY SAUDI HOME LOANS COMPANY)  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2023**  
(Amounts in Saudi Riyals unless otherwise stated)

**1. THE COMPANY AND PRINCIPAL ACTIVITIES**

SHL Finance Company (the "Company") (Formerly Saudi Home Loans Company) is a Saudi joint stock Company which was 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). The address of the Company is as follows:

SHL Finance Company  
P.O. Box 27072  
Riyadh 11417  
Kingdom of Saudi Arabia

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.

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. During 2023, the Company has also obtained license from SAMA to practice the financing of small and medium enterprise activities and consumer financing activities.

On 14 February 2023, in an extra-ordinary general assembly meeting, the shareholders of the Company have resolved to change the name of the Company to SHL Finance Company.

The Company has also updated its byelaws to reflect the above changes.

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 implementation. The management of the Company is in the process of assessing the potential impact of implementation 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 17 January 2025.

**Branches of the Company**

As at 31 December, 2023 and 2022, 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:

<u>Branch</u>	<u>CR Number</u>	<u>Date</u>
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 2023, 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.

**SHL FINANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2023**  
(Amounts in Saudi Riyals unless otherwise stated)

<b>New and revised IFRS</b>	<b>Summary</b>
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.
IFRS 17 Insurance Contracts and its amendments	IFRS 17 establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.  Amendments require 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. These Amendments to IFRS 17 also address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017.
Amendments to IAS 1 and IFRS Practice Statement 2 (Disclosure of Accounting Policies)	The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.
Amendments to IAS 8 (Definition of Accounting Estimates)	The amendments replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.
Deferred Tax related to Assets and Liabilities arising from a Single Transaction and temporary exception regarding deferred tax assets and liabilities related to pillar two income taxes (Amendments to IAS 12)	Amendments 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. The amendments also provide a temporary exception to the requirements regarding deferred tax assets and liabilities related to pillar two income taxes.

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**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:

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<p><b>Classification of Liabilities as Current or Non-current (Amendments to IAS 1)</b></p> <p>The amendment aims 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.</p>	January 1, 2024
<p><b>Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)</b></p> <p>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.</p>	January 1, 2024
<p><b>Non-current Liabilities with Covenants (Amendments to IAS 1)</b></p> <p>The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.</p>	January 1, 2024
<p><b>Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)</b></p> <p>The amendments add disclosure requirements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.</p>	January 1, 2024
<p><b>IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information</b></p> <p>IFRS S1 sets out overall requirements for sustainability-related financial disclosures with the objective to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.</p>	January 1, 2024
<p><b>IFRS S2 Climate-related Disclosures</b></p> <p>IFRS S2 sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.</p>	January 1, 2024
<p><b>Amendments to the SASB standards to enhance their international applicability</b></p> <p>The amendments remove and replace jurisdiction-specific references and definitions in the SASB standards, without substantially altering industries, topics or metrics</p>	January 1, 2025
<p><b>Lack of Exchangeability (Amendments to IAS 21)</b></p> <p>The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.</p>	January 1, 2025

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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. MATERIAL 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:

<b>Items</b>	<b>Measurement bases</b>
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 3.
Investment classified as fair value through other comprehensive income (“FVOCI”)	The investment is carried at cost.  These are valued using valuation techniques with market observable inputs at end of each reporting period.
Derivative financial instrument	These are carried at lower of outstanding receivables net of expected credit losses from customer at amortized cost and fair value of the property.
Other real estate properties	

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 material 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 2022 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.

**SHL FINANCE COMPANY**  
(FORMERLY SAUDI HOME LOANS COMPANY)  
(A SAUDI JOINT STOCK COMPANY)

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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 2023 and 2022, the Company has debt instruments (Murabaha receivables) and other financial assets at amortised cost, equity instrument at FVOCI and derivative financial instruments at FVTPL. Investment in finance lease receivables/Ijara receivables, which are financial assets are measured in accordance with accounting policies explained in *Net investments in finance lease/Ijara receivables* section of this note.

*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.



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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 and Murabaha receivables are measured at amortized cost applying the effective interest method. Investment in finance lease receivables/Ijara receivables, which are financial assets are measured in accordance with accounting policies explained in *Net investments in finance lease/Ijara receivables* section of this note.

***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.

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***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 a promise to transfer the ownership, where the legal title of the property will be passed to the customer once all Ijarah instalments are settled.

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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.

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 Murabaha receivables. The Company applies the requirements of IFRS 9 explained in following paragraphs to account for any modification and derecognition.

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***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.

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**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 revised 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 using the effective interest rate method.

**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.

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***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.

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Any exposure for which there is a SICR since origination. The Company clearly defines what it considers to be SICR. Such indicators considered by the Company 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 only once
- Two-notch downgrade of internal credit ratings for a group of customers

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 more than once 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 and Murabaha receivables secured through real estate properties 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,
- unsecured personal and small and medium enterprise loan receivables (included within Murabaha receivables) are written off to the extent recoverable when the receivables remain uncollected for 360 days or more after their classification as stage 3 customers,

whichever is earlier.

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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 assessed annually.

Subsequent to initial recognition, any subsequent write down to fair value, are charged to the statement of profit or 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.



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**C. Income/expense recognition**

***Income from finance lease***

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. 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.

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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:

	<i>Rate</i>
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 (2022: 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.

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**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.

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**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.

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**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). 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.

The initial amount recognised as the servicing assets is calculated as the percentage of total fair value (i.e. financial asset and servicing contract) multiplied by carrying amount of the derecognised asset (measured at the date of derecognition).

The initial amount recognised as the servicing liabilities is the fair value of the servicing obligations determined as net present value of 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.

Net servicing assets are accounted for under IAS 38 Intangible Assets and 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 2023 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:

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**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:

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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, recoveries and cure rate, 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.

Going concern

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

**5. CASH AND BANK**

	<u>Note</u>	<u>2023</u>	<u>2022</u>
Cash in hand		<b>35,000</b>	36,000
Cash at bank		<b>75,853,971</b>	39,857,699
Certified cheques in hand	<b>5.1</b>	<b>4,383,466</b>	2,953,584
Cash and cash equivalents		<b>80,272,437</b>	42,847,283
Restricted deposits with banks	<b>5.2</b>	-	42,200,000
		<b>80,272,437</b>	<b>85,047,283</b>

Cash at banks include profit bearing Murabaha deposits of SR 31 million as at 31 December 2023 (2022: SR 20 million) with profit rate approximating 5.28% (2022: 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 (see below) 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.

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	2023	2022
A-	44,438,449	23,306,753
A3	14,809	12,155
BBB+	277,317	58,738,791
Total*	44,730,575	82,057,699

\* This balance does not include term deposits of SR 31,123,396 with a related party (for 2023 only), cash and certified cheques in hand.

SR 37 million (2022: 34.8 million) is placed with Arab National Bank, a related party, in normal course of business.

#### 5.1 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.

#### 5.2 Restricted deposits

This balance represented restricted deposits with commercial banks against Tawarruq financing facility. As per facility agreement, the Company was required to maintain certain amounts in reserve accounts with the commercial banks and the Company could not make any transaction and withdraw this deposit until the repayment of Tawarruq liabilities. During the year, the banks have waived such condition and the amount was released.

### 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:

<u>Name</u>	<u>Relationship</u>
Arab National Bank ("ANB")	Shareholder
Dar Al Arkan	Shareholder
International Financial Corporation ("IFC")*	Shareholder
Quara Digital Private Limited ("Quara")	Affiliate
Wasalt Real Estate Services ("Wasalt")	Affiliate
Tharwat Alasool Real Estate Company ("Tharwat")	Affiliate
Al Khair Capital	Affiliate

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



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

	<u>2023</u>	<u>2022</u>
Finance costs (ANB) - shareholder	117,314,695	65,948,106
Residential unit purchased (Dar Alarkan) - shareholder	3,802,085	3,817,400
Service fees, net (ANB) - shareholder	4,410,062	5,557,364
Hedging gain (ANB) - shareholder	6,532,405	290,090
Tawarruq financing charges (IFC) - shareholder	-	4,475,884
Lease liability paid (Tharwat) - affiliate	2,179,940	2,179,940
Profit on Murabaha deposits (ANB)	23,968	413,425
Real estate services (Wasalt) - affiliate	110,184	250,125
Technology support (Quara) - affiliate	170,847	12,907
Profit on Murabaha deposits - Al Khair Capital	1,123,396	-

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

	<u>2023</u>	<u>2022</u>
Loan obtained from a shareholder (ANB) (note 20)	1,698,200,489	1,571,624,937
Loan obtained from a shareholder (IFC) (note 20)	-	78,405,789
Deferred origination fees (ANB) (note 12)	12,105,224	14,375,181
Prepaid financing facility fees (IFC) (note 7)	-	469,912
Due from a related party related to service fees (ANB) (note 15)	503,862	593,004
Murabaha term deposits (ANB) (note 5)	-	20,000,000
Fair value of derivative financial instruments (ANB) (note 14)	26,947,418	31,132,519
Murabaha callable deposits - Al Khair Capital (note 5)	31,123,396	-

**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.

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

	<u>2023</u>	<u>2022</u>
Salaries	4,462,135	4,305,840
End of service benefits	208,848	202,820
Other allowances	1,369,593	1,191,901
Board of directors' remuneration - connected persons	4,518,000	4,616,000
	<u>10,558,576</u>	<u>10,316,561</u>

**7. PREPAID EXPENSES AND OTHER ASSETS**

	<u>2023</u>	<u>2022</u>
Prepaid financing facility fees	1,591,616	2,285,537
Prepaid insurance	1,182,561	1,172,259
Prepaid software maintenance	800,577	674,739
Advance tax paid (note 18)	674,798	1,842,057
Prepaid sales commission	3,953,038	-
Others	1,244,718	1,700,721
	<u>9,447,308</u>	<u>7,675,313</u>

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**8. OTHER RECEIVABLES, NET**

	<u>2023</u>	<u>2022</u>
Insurance claims receivable on deceased-case leases	31,480,675	34,930,730
Receivables under litigation	12,130,690	10,259,816
VAT receivable from Ministry of Housing	5,719,619	5,936,035
Due from ZATCA (note 18)	867,188	6,437,562
Due from Saudi Real Estate Refinance Company ("SRC")	-	293,067
Employees' advances and receivables	100,772	123,482
Others	477,910	717,001
	<u>50,776,854</u>	<u>58,697,693</u>
Allowance against receivables under litigation and deceased-case leases	<u>(25,138,199)</u>	<u>(27,084,724)</u>
	<u>25,638,655</u>	<u>31,612,969</u>

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

	<u>2023</u>	<u>2022</u>
Allowance against insurance claims receivable on deceased case leases	21,528,644	23,475,169
Allowance against receivables under litigations	3,609,555	3,609,555
	<u>25,138,199</u>	<u>27,084,724</u>

Movement in allowance during the year

	<u>Allowance against insurance claim</u>	<u>Allowance against receivable under litigations</u>
<b>2023</b>		
1 January	23,475,169	3,609,555
Reversal during the year	(1,946,525)	-
December 31	<u>21,528,644</u>	<u>3,609,555</u>
<b>2022</b>		
1 January	24,910,881	3,212,577
Charge during the year	1,702,520	396,978
Write off during the year	(3,138,232)	-
December 31	<u>23,475,169</u>	<u>3,609,555</u>

During 2022, the management has written off insurance claims receivable of SR 1.88 million directly to the statement of profit or loss and SR 3.14 million against the allowance recognized previously. There were no such write offs during 2023.

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.

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**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 2023 and 2022, the carrying value of this investment is not materially different to its fair value.

**10. INVESTMENTS IN FINANCE LEASES, NET**

	<u>2023</u>	<u>2022</u>
<b>Investments in finance leases - gross</b>	<b>5,668,811,303</b>	5,843,497,410
Less: Unearned finance income	<b>(2,037,777,190)</b>	(1,997,736,060)
<b>Investments in finance leases before expected credit loss</b>	<b>3,631,034,113</b>	3,845,761,350
Less: Allowance for expected credit losses	<b>(25,463,316)</b>	(31,055,552)
<b>Investments in finance leases – net</b>	<b>3,605,570,797</b>	3,814,705,798

Total number of outstanding lease contracts as at 31 December 2023 is 5,957 (2022: 6,429).

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 natural person.

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

	<u>2023</u>	<u>2022</u>
January 1	<b>31,055,552</b>	64,003,238
Reversal of provision previously written off net of current year write off	<b>974,198</b>	(5,092,155)
Reversed during the year, net	<b>(6,566,434)</b>	(27,855,531)
December 31	<b>25,463,316</b>	31,055,552

During 2023, the Company has written off an amount of SR 0.37 million (2022: SR 5.1 million) and also repossessed properties from some defaulted customer on which SR 1.3 million was written off in previous year. The net impact after written off addition is SR 0.97 million following the SAMA rules governing credit risk exposure classification and provisioning.

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

	2023			Total
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Loss rate in %	0.12	2.19	13.01	0.70
Investment in finance lease before ECL	3,279,037,868	225,692,589	126,303,656	3,631,034,113
Allowance for ECL	(4,079,901 )	(4,945,250)	(16,438,165)	(25,463,316)
Net carrying amount	3,274,957,967	220,747,339	109,865,491	3,605,570,797
	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

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.

10.3 Maturity profile of lease payments is as follows:

Year	2023		
	Gross lease receivables	Unearned finance income	Investments in finance leases
Within one year	554,649,578	277,267,280	277,382,298
Year two	536,789,497	253,955,729	282,833,768
Year three	516,029,334	229,523,755	286,505,579
Year four	489,301,415	205,101,749	284,199,666
Year five and later	3,572,041,479	1,071,928,677	2,500,112,802
	5,668,811,303	2,037,777,190	3,631,034,113
	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

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

<b>Days past due:</b>	<b>2023</b>	<b>2022</b>
1 - 3 months	<b>13,229,808</b>	14,437,549
4 - 6 months	<b>706,820</b>	670,888
7 - 12 months	<b>121,152</b>	1,604,770
Over 12 months	<b>24,330,869</b>	34,992,925
Total	<b>38,388,649</b>	51,706,132

The not yet due portion of the above overdue balance is SR 1,592 million (2022: SR 1,931 million).

During the year, the finance lease receivables decreased mainly as a result of decrease in the outstanding lease agreements to 5,957 from 6,429 in 2022. The average term of finance leases entered into is 19 years (2022: 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 8 per cent (2022: 6.83 per cent) per annum.

The principal outstanding and accrued profit on finance lease receivables modified during the year is SR 237 million (2022: SR 6.5 million) and SR 1.46 million (2022: SR 0.08 million) 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.

**11. MURABAHA RECEIVABLES, NET**

	<b>2023</b>	<b>2022</b>
<b>Murabaha receivables, gross</b>	<b>921,476,443</b>	480,113,746
Less: Unearned finance income	<b>(340,823,644)</b>	(170,993,897)
<b>Murabaha receivables before ECL</b>	<b>580,652,799</b>	309,119,849
Less: Allowance for expected credit losses	<b>(3,064,580)</b>	(1,005,519)
<b>Murabaha receivables, net</b>	<b>577,588,219</b>	308,114,330

Below is the breakup of Murabaha receivables

<b>2023</b>	<b>Personal Finance</b>	<b>SMEs</b>	<b>Real estate</b>	<b>Total</b>
<b>Murabaha receivables, gross</b>	<b>30,934,840</b>	<b>25,300,000</b>	<b>865,241,603</b>	<b>921,476,443</b>
Less: Unearned finance income	<b>(7,835,217)</b>	<b>(1,730,470)</b>	<b>(331,257,957)</b>	<b>(340,823,644)</b>
<b>Murabaha receivables before ECL</b>	<b>23,099,623</b>	<b>23,569,530</b>	<b>533,983,646</b>	<b>580,652,799</b>
Less: Allowance for expected credit losses	<b>(447,205)</b>	<b>(94,328)</b>	<b>(2,523,047)</b>	<b>(3,064,580)</b>
<b>Murabaha receivables, net</b>	<b>22,652,418</b>	<b>23,475,202</b>	<b>531,460,599</b>	<b>577,588,219</b>

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Total number of outstanding Murabaha contracts, including personal finance and small and medium enterprise ("SME") loan receivables as at 31 December 2023 are 806 (2022: 342). Amounts due under Murabaha receivables and personal finance are due from individual natural person.

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

	2023	2022
January 1	1,005,519	70,991
Charge for the year	2,059,061	934,528
December 31	<u>3,064,580</u>	<u>1,005,519</u>

11.2 The credit quality of Murabaha receivables is as follows:

	2023			Total
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Loss rate in %	0.31	1.89	15.37	0.53
Murabaha receivables before ECL	558,416,773	15,261,139	6,974,887	580,652,799
Allowance for ECL	(1,703,782)	(288,585)	(1,072,213)	(3,064,580)
Net carrying amount	<u>556,712,991</u>	<u>14,972,554</u>	<u>5,902,674</u>	<u>577,588,219</u>
	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	<u>298,521,092</u>	<u>8,325,200</u>	<u>1,268,038</u>	<u>308,114,330</u>

The related staging movements of Murabaha receivables, the related allowance for expected credit losses and information about collateral are disclosed in note 30. Note 30 also includes ECL analysis on Personal finance and SME loans.

11.3 Maturity profile of Murabaha payments is as follows:

Year	2023		
	Gross receivables	Unearned finance income	Receivables before ECL
Within one year	103,687,524	47,296,624	56,390,900
Year two	81,536,544	42,264,274	39,272,270
Year three	81,379,299	38,500,598	42,878,701
Year four	74,850,813	34,465,858	40,384,955
Year five and later	580,022,263	178,296,290	401,725,973
	<u>921,476,443</u>	<u>340,823,644</u>	<u>580,652,799</u>

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Year	2022		
	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
	<b>480,113,746</b>	<b>170,993,897</b>	<b>309,119,849</b>

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

Days past due:	2023	2022
1 - 3 months	<b>1,057,841</b>	541,836
4 - 6 months	<b>98,856</b>	51,655
7 - 12 months	<b>89,764</b>	-
Over 12 months	<b>161,528</b>	-
Total	<b>1,407,989</b>	593,491

The not yet due portion of the above overdue balance is SR 167.7 million (2022: SR 106 million).

The principal outstanding and accrued profit on Murabaha receivables modified during the year is SR 0.65 million and SR 1,527 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.

**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.

	2023	2022
January 1	<b>14,375,181</b>	18,204,844
Origination charge for the year	<b>(2,269,957)</b>	(3,829,663)
December 31	<b>12,105,224</b>	14,375,181

**13. OTHER REAL ESTATE, NET**

The Company repossesses real estate assets against settlement of over-due receivables.

The movement in other real estate is presented below:

	2023	2022
January 1	<b>21,983,608</b>	8,636,219
Repossessed during the year	<b>26,581,123</b>	21,987,232
Sold during the year	<b>(11,511,281)</b>	(7,155,168)
Impairment losses recognized	<b>(2,789,493)</b>	(1,484,675)
December 31	<b>34,263,957</b>	21,983,608

#### **14. DERIVATIVE FINANCIAL INSTRUMENT**

During 2022, 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 2023 was SR 26.95 million (2022: SR 31.32 million) with a notional amount of SR 179 million (2022: 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 6.5 million (2022: SR 0.3 million).

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.

Subsequent to year end, on 3<sup>rd</sup> January 2024, the management cancelled the hedging agreement and received SR 26 million against cancelation of hedging instrument.

#### **15. SERVICING RIGHTS UNDER AGENCY ARRANGEMENTS**

The Company 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.

In 2022, the Company sold SR 38.98 million of its outstanding principal balances and the total amount received from SRC in respect of such sale was SR 39.26 million. Net gain recognized on derecognition of these receivables was SR 0.23 million. During the year, the Company has not sold any of its receivables.

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, net of insurance charges of SR 4.36 million during the year (2022: SR 5.6 million).



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**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**

	<u>2023</u>	<u>2022</u>
Employees' related expenses	<b>6,905,536</b>	6,171,201
Board related expenses	<b>4,903,000</b>	4,616,000
Accrued credit life insurance	-	4,133,848
Accrued annual maintenance charges	<b>65,266</b>	1,629,218
Deferred application and accrued fee	<b>1,238,595</b>	-
Others	<b>1,915,230</b>	2,440,699
	<u><b>15,027,627</b></u>	<u>18,990,966</u>

**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 2022 and have received final assessment up to 2018.

ZATCA conducted a review for the two years 2021 & 2022 and these are still under assessment.

**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 2023 is SR nil (2022: SR 4.06 million).

**a) Zakat and income tax charge for the year**

	<u>2023</u>	<u>2022</u>
Zakat relating to the Saudi shareholder	<b>525,957</b>	8,911,036
Income tax relating to the non-Saudi shareholder	<b>2,190,517</b>	1,523,469
Total	<u><b>2,716,474</b></u>	<u>10,434,505</u>

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**Components of zakat base**

The principal elements of the zakat base are as follows:

	<b>2023</b>	<b>2022</b>
Assets excluded from zakat base	<b>3,949,252,414</b>	3,819,908,596
Assets included in zakat base	<b>434,105,638</b>	511,016,419
Net income before Zakat and income tax	<b>2,890,450</b>	97,942,936
Zakat Base	<b>23,123,600</b>	391,771,744

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	<b>2023</b>	<b>2022</b>
January 1	<b>12,969,728</b>	17,811,438
Provision for zakat for current year	<b>525,957</b>	8,911,036
Payment during the year against previous years	<b>(4,058,692)</b>	(4,058,692)
Payment during the year against 2022 provision	<b>(8,911,036)</b>	(9,694,054)
December 31	<b>525,957</b>	12,969,728
Income tax	<b>2023</b>	<b>2022</b>
January 1	-	1,458,426
Reclassified from prepaid expenses and other assets	<b>(1,842,057)</b>	-
Provision for income tax for current year	<b>2,190,517</b>	1,471,809
Under provision for previous year	-	51,660
Payment during the year	<b>(1,023,258)</b>	(4,823,952)
Reclassified to prepaid expenses and other assets	<b>674,798</b>	1,842,057
December 31	-	-

**Prior years income tax adjustment**

During 2023, ZATCA approved a refund of SR 2.3 million (2022: SR 10.9 million) (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. The Company received SR 7.8 million (2022: SR 4.4 million) and a remaining receivable balance of SR 0.8 million (2022: SR 6.4 million) is expected to be received in next 12 months which is presented within other receivables in note 8.

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

	<u>2023</u>	<u>2022</u>
Profit before tax	2,890,450	97,942,377
Non-Saudi portion of the adjusted net income (11.76%) (2022: 11.76%)	<u>339,917</u>	<u>11,518,024</u>
Tax at the income tax rate of 20%	67,983	2,303,605
Tax effect of expenses that are not deductible in determining taxable profit	2,271,093	159,658
Tax effect of income that are not taxable in determining taxable profit	(148,559)	(800,354)
Other adjustments	<u>-</u>	<u>(191,100)</u>
Income tax expenses for the year	<u><u>2,190,517</u></u>	<u><u>1,471,809</u></u>

**19. DEFERRED TAX**

	<u>2023</u>	<u>2022</u>
January 1	1,917,078	4,402,330
Deferred tax expense for the year	<u>(160,523)</u>	<u>(2,485,252)</u>
December 31	<u><u>1,756,555</u></u>	<u><u>1,917,078</u></u>

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.

2023	Recognised in the statement		
	January 1	of profit or loss	December 31
<b>Deductible temporary difference</b>			
Depreciation of property and equipment	464,624	(260,888)	203,736
Provision for end of service benefits liability	647,905	(373,259)	274,646
Provision for expected credit losses	804,549	473,624	1,278,173
	<u>1,917,078</u>	<u>(160,523)</u>	<u>1,756,555</u>
		Recognised in the statement	
2022	January 1	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
	<u>4,402,330</u>	<u>(2,485,252)</u>	<u>1,917,078</u>

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**20. TAWARRUQ FINANCING FACILITIES**

	<u>2023</u>	<u>2022</u>
Tawarruq payable excluding finance charges	<b>2,654,522,181</b>	2,544,092,004
Accrued Tawarruq finance charges	<b>12,563,307</b>	7,176,514
	<b><u>2,667,085,488</u></b>	<b><u>2,551,268,518</u></b>

All facilities are secured by promissory notes and assignment of contracts and proceeds from investments in finance lease and Murabaha receivables. 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 total gross receivable outstanding from customers which are assigned against Tawarruq financing facilities are SR 3.1 billion (2022: SR 2.8 billion).

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

	<u>2023</u>	<u>2022</u>
January 1	<b>2,551,268,518</b>	2,653,074,515
Drawdown during the year	<b>455,000,000</b>	150,000,000
Repayment during the year	<b>(344,569,823)</b>	(254,875,200)
Finance charges accrued during the year	<b>187,848,859</b>	106,706,161
Finance charges repaid during the year	<b>(182,462,066)</b>	(103,636,958)
December 31	<b><u>2,667,085,488</u></b>	<b><u>2,551,268,518</u></b>

*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 2023	Proceeds from lenders	Repayments to lenders/lessee	Other changes	Non-cash changes	31 December 2023
Tawarruq financing facilities	<b>2,551,268,518</b>	455,000,000	(344,569,823)	5,386,793	-	<b>- 2,667,085,488</b>
Lease liabilities	<b>5,506,339</b>	-	(3,118,040)	295,550	-	<b>- 2,683,849</b>
Total liabilities from financing activities	<b><u>2,556,774,857</u></b>	<b><u>455,000,000</u></b>	<b><u>(347,687,863)</u></b>	<b><u>5,682,343</u></b>	<b><u>-</u></b>	<b><u>- 2,669,769,337</u></b>

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	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

Other changes include interest accruals and payments.

**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:

	2023	2022
January 1	9,731,569	8,598,413
Current service cost	1,628,599	1,493,630
Interest cost on defined benefit obligation	515,987	342,017
Benefits paid to outgoing members during the year	(590,007)	(408,159)
Actuarial loss/(gain) on obligation	390,996	(294,332)
December 31	11,677,144	9,731,569

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

	2023	2022
Current service cost	1,628,599	1,493,630
Interest cost on defined benefit obligation	515,987	342,017
Cost recognised in the statement of profit or loss	2,144,586	1,835,647
Actuarial loss/(gain) on obligation recognised in OCI	390,996	(294,332)
Total defined benefit cost recognised during the year	2,535,582	1,541,315

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

	2023	2022
Loss from change in financial assumptions	41,839	44,554
Loss/(gain) due to change in demographic assumptions	192	(161,321)
Loss/(gain) from change in experience assumptions	348,965	(177,565)
Actuarial losses/(gains) on re-measurement of the defined benefit obligation	390,996	(294,332)

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

	2023	2022
Discount rate	4.60%	4.65%
Expected rate of salary increase	5% is for first 2 years and 4.60% onwards	5% is for first 2 years and 4.65% onwards
Mortality rate	WHO SA 19	WHO SA 19
Normal retirement age	60	60

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

	2023	2022
Weighted average duration of the defined benefit obligation	5.65	5.7
Distribution of timing of benefit payments		
Year 1	1,555,151	1,335,147
Year 2	2,396,137	1,990,249
Year 3	1,829,237	1,439,843
Year 4	1,647,497	1,534,805
Year 5	1,692,914	1,419,551
Year 6-10	10,170,038	7,435,159

The Company expects to recognise SR 2,287,469 (2022: 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 2023 and 2022 to the discount rate and the expected rate of salary increase while other assumptions remain constant.

	2023	2022
Discount rate, +0.5%	(321,281)	(270,006)
Discount Rate, -0.5%	339,065	285,200
Expected rate of salary increase, +0.5%	258,550	218,261
Expected rate of salary increase, -0.5%	(247,722)	(208,922)

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.

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

As of December 31, 2023, and 2022, 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 3 million (2022: SR 2.6 million).

## 22. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company consists of 100 million shares of SR 10 each. The Company floated 30% of its existing share capital on Tadawul and the trading started on 20 April, 2022. Following the listing, the revised shareholding of the Company is as follows as at 31 December 2023 and 2022:

	<b>Number of shares of SR 10 each</b>	<b>Share capital</b>
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
	<u>100,000,000</u>	<u>1,000,000,000</u>

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

## 23. STATUTORY RESERVE

As per the requirements of the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's Byelaws, the Company has established a statutory reserve by the appropriation of at least 10% of net income until the reserve equal to 30% of the share capital. This reserve is not available for dividend distribution. The new Regulations for Companies which is effective from 19 January 2023 does not require to establish a mandatory statutory reserve and allows the Company to decide on the required reserves which must be specified in the relevant Byelaws.

## 24. DIVIDENDS DISTRIBUTION

### 2023

On 14 May 2023, the Board of Directors, recommended a cash dividend distribution of SR 50 million. On 21 June 2023, the general assembly approved the distribution of SR 50 million which was distributed on 13 July 2023.

### 2022

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.

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**25. FINANCE INCOME**

	<u>2023</u>	<u>2022</u>
Finance income on the net investment in finance leases	269,977,628	250,171,352
Finance income on murabaha receivables	27,937,806	11,684,375
	<u>297,915,434</u>	<u>261,855,727</u>

**26. DIRECT COST**

	<u>2023</u>	<u>2022</u>
Evaluation expenses and other fees	599,454	2,569,977
Insurance expenses	20,943,137	22,340,905
	<u>21,542,591</u>	<u>24,910,882</u>

**27. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2023</u>	<u>2022</u>
Employees' salaries and other benefits	61,525,126	56,145,685
Board of directors' remuneration	4,518,000	4,616,000
Consultation fees	5,078,887	6,146,117
Depreciation and amortisation	4,455,248	4,550,158
Software support charges	2,249,381	2,569,818
Collection commission	3,363,400	3,015,625
VAT expense	4,343,708	2,621,960
Telecommunication and electricity expenses	1,316,115	1,101,401
Bank charges	361,152	811,056
Recruitment related expenses	374,843	253,911
Repairs and maintenance	401,124	387,350
Others	4,286,700	2,943,147
	<u>92,273,684</u>	<u>85,162,228</u>

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

**28. SELLING AND MARKETING EXPENSES**

	<u>2023</u>	<u>2022</u>
Sales and title commission	1,350,780	4,169,039
Marketing expenses	325,052	702,595
Others	665,647	997,570
	<u>2,341,479</u>	<u>5,869,204</u>



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**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:

	<u>2023</u>	<u>2022</u>
Net income for the year	<b>2,326,396</b>	95,889,625a
Weighted average number of ordinary shares	<b>100,000,000</b>	100,000,000
Basic and diluted earnings per share (expressed in SR per share)	<b>0.02</b>	0.96

**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 regular 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.

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**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 after curing period has lapsed.

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 after the curing period has lapsed.

Stage 3: Investments in finance lease and Murabaha receivables considered credit-impaired. The Company recognizes 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 crude oil price, general government revenue, total investment, gross domestic product, and general government expenditures 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 include:

- The payments are past due by more than 30 days;
- The borrower has a moderate risk of default;
- 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
- For commercial portfolio, a two-notch downgrade in internal rating

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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).

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 principal and finance income is 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.

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The Company has identified and documented key drivers of credit risk and credit losses for its main Retail Mortgage 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 2023 for retail mortgage portfolio, included within investment in finance lease and Murabaha receivables.

- Crude Oil Price (Average of Brent, Dubai and WTI) in U.S. dollars
- General government revenue (National currency)
- Total Investment (Percent of GDP)

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 2023 and 2022 for the main retail Mortgage portfolio included the following ranges of key macroeconomic variables:

<b>Macroeconomic variable</b>	<b>2023</b>
Crude Oil Price (Average of Brent, Dubai and WTI) in U.S. dollars	Upside 30%
General government revenue (National currency)	Base case 40%
Total Investment (Percent of GDP)	Downside 30%
<b>Macroeconomic variable</b>	<b>2022</b>
Crude Oil Price (Average of Brent, Dubai and WTI) in U.S. dollars	Upside 30%
Gross domestic product, current prices (National Currency)(billions)	Base case 40%
Total Investment (Percent of GDP)	Downside 30%

Predicted relationships between the key indicators and default and loss rates on Retail Mortgages 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:

<b>Macroeconomic variable</b>	<b>Forecast calendar years used in 2023 ECL model</b>		
	<b>2023</b>	<b>2024</b>	<b>2025</b>
Crude Oil Price (Average of Brent, Dubai and WTI) in U.S. dollars	80.5	79.9	75.9
General government revenue (National currency)	1,171.7	1,226.1	1,270.9
Total Investment (Percent of GDP)	27.4	28.1	28.6

<b>Macroeconomic variable</b>	<b>Forecast calendar years used in 2022 ECL model</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
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.

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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 the main Retail Mortgage portfolio ECL to key factors used in determining it as at the year-end:

Assumptions sensitized	Impact to the 2023 ECL - increase/ (decrease)
<b>Macro-economic factors:</b>	
Decrease in Crude Oil Price (Average of Brent, Dubai and WTI) in U.S. dollars by 10%	40,954
Decrease in General government revenue (National currency) by 10%	62,674
Decrease in Total Investment (Percent of GDP) by 10%	58,947
<b>Scenario weightages:</b>	
Base scenario reduced by -10% with corresponding change in downside	210,685
Base scenario reduced by -10% with corresponding change in upside	(151,342)

Assumptions sensitized	Impact to the 2022 ECL - increase/ (decrease)
<b>Macro-economic factors:</b>	
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

<b>Scenario weightages:</b>	
Base scenario reduced by -10% with corresponding change in downside	445,697
Base scenario reduced by -10% with corresponding change in upside	(86,995)

The Company has also identified and documented key drivers of credit risk and credit losses for its relatively new portfolios including Commercial Real Estate (High Net Worth Individuals ("HNWI")), SME/Corporate, Personal Finance (Retail) and Personal Finance (HNWI) and, due to the absence of historical data (default data), the industry level default rates in KSA were used. Listed below are the key independent variables selected on the basis of correlation with industry benchmarks used as at 31 December 2023.

- Crude Oil Price (Average of Brent, Dubai and WTI) in U.S. dollars
- General government revenue (National currency)
- General government expenditure
- Gross domestic product

Aligned with the primary scenarios for the main retail mortgage portfolio, consistent scenario weights—Upside (30%), Base case (40%), and Downside (30%)—were applied to the Commercial Real Estate (HNWI), SME/Corporate, and Personal Finance (HNWI and Retail) portfolios.

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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 2023 ECL model		
	2023	2024	2025
Crude Oil Price (Average of Brent, Dubai and WTI) in U.S. dollars	73.13	68.9	66.9
General government revenue (National currency)	28.5	28.7	28.8
General government expenditure	29.6	29.9	29.7
Gross domestic product	3.0	3.1	3.0

The table below provides a snapshot of the ECL sensitivity for these relatively new portfolios to scenario factors at the year-end.

Assumptions sensitized	Impact to the 2023 ECL - increase/ (decrease)
<b>Macro-economic factors:</b>	
Decrease in Crude Oil Price (Average of Brent, Dubai and WTI) in U.S. dollars by 10%	592,533
Decrease in General government revenue (Percent of GDP) by 10%	31,802
Decrease in General Government Expenditure (Percent.of.GDP) by 10%	359,300
Decrease in Gross Domestic Product (Percent.change) by 10%	12,285
<b>Scenario weightages:</b>	
Base scenario reduced by -10% with corresponding change in downside	113,053
Base scenario reduced by -10% with corresponding change in upside	(87,254)

**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 Commercial Real Estate (HNWI), Personal Finance (HNWI and Retail) and SME/Corporate portfolios. 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. As for the Retail Mortgage portfolio, the PD is allocated at the risk segment level and not the rating level. 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 final collateral value after haircut used for estimating the LGD%.

EAD represents the expected exposure in the event of a default. The EADs are the outstanding principal (+ 3 months accrued profits) and earned but not yet collected profit for each contract.

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During the year, the Company performed ECL model validation exercise which resulted to the following updates in the retail mortgage portfolio model.

Parameter	Update
PD model	16 quarters (Sep'18-Jun'22) of historical data is used to update TTC PD. Since additional 4 quarters of data is available (Sept'21 – Jun'22). 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, time to liquidate post repossession have been updated to 2.9% and 3 years respectively.

In addition, the Company has recalibrated the Commercial Real Estate (HNWI) model developed last year and introduced new models for SME/Corporate and Personal Finance (HNWI and Retail) this year.

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.  The default rate data for the SME/Corporate and Personal Finance (HNWI and Retail) portfolios is not available as those are recently initiated – in addition, there are still no default experiences in the commercial real estate (HNWI) portfolio since last year. Hence, in order to develop PIT PD models, default rates for these portfolios is 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 2000-2028.  The macroeconomic variables used in these models are as follows:

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Parameter	Methodology						
	<ul style="list-style-type: none"> <li>- Crude Oil</li> <li>- General government revenue (National currency)</li> <li>- General government expenditure</li> <li>- Gross domestic product</li> </ul> <p>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 variables were selected on the basis of business intuition and correlation.</p>						
LGD model	<p>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:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Exposure Split</th> <th>LGD</th> </tr> </thead> <tbody> <tr> <td>Secured Portion</td> <td>20%</td> </tr> <tr> <td>Unsecured Portion</td> <td>40%</td> </tr> </tbody> </table> <p>The haircut applied to the collateralized exposures is 40% for Commercial RE and 25% for Residential RE.</p>	Exposure Split	LGD	Secured Portion	20%	Unsecured Portion	40%
Exposure Split	LGD						
Secured Portion	20%						
Unsecured Portion	40%						

The overall ECL for personal finance and SMEs portfolio is SAR 0.54 million represents 1.13% of the exposure the details are as below:

	<b>2023</b>			<b>Total</b>
	<b>12-month ECL</b>	<b>Lifetime ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	
Loss rate in %	<b>1.06</b>	<b>5.07</b>	<b>76.36</b>	<b>1.16</b>
Exposure at default	<b>46,205,698</b>	<b>423,175</b>	<b>40,280</b>	<b>46,669,153</b>
Allowance for ECL	<b>(489,315)</b>	<b>(21,459)</b>	<b>(30,759)</b>	<b>(541,533)</b>
Net carrying amount	<b>45,716,383</b>	<b>401,716</b>	<b>9,521</b>	<b>46,127,620</b>

**Loss allowance**

The following table shows reconciliations from the opening to the closing balance of the carrying amount of the investment in finance lease, Murabaha receivables and related loss allowance accounts. The transfers during the year for the pre-existing contracts are presented at the receivable amount outstanding/ECL amount under those contracts as of the close of previous year end except for new originations, where the new originations and their transfers to different stages are presented at the receivable amount outstanding/ECL amount under those contracts as of reporting date.

Net changes include change in the receivable amount outstanding /ECL between two reporting date of contracts existing at both dates. Contracts terminated during the year or paid off are included in net changes during the year at the amount outstanding/ECL amount under those contracts as of the close of previous year end.



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**Investment in finance lease**

Investments in finance lease - gross	12 Month ECL	Lifetime ECL as at 2023		Total
		Not credit Impaired	Credit impaired	
Opening balance at 1 January	3,420,777,735	252,011,820	172,971,795	3,845,761,350
Transfer to 12 Month ECL	99,461,564	(99,461,564)	-	-
Transfer to Lifetime ECL (not credit impaired)	(117,967,611)	149,589,570	(31,621,959)	-
Transfer to Lifetime ECL (credit impaired)	-	(33,784,019)	33,784,019	-
New originations during the year	388,646,146	-	-	388,646,146
Net change for the year	(511,879,966)	(42,663,218)	(48,830,199)	(603,373,383)
<b>Closing balance</b>	<b>3,279,037,868</b>	<b>225,692,589</b>	<b>126,303,656</b>	<b>3,631,034,113</b>

Loss allowance	12 Month ECL	Lifetime ECL as at 2023		Total
		Not credit Impaired	Credit impaired	
Opening balance at 1 January	2,268,656	7,341,687	21,445,209	31,055,552
Transfer to 12 Month ECL	4,428,246	(4,428,246)	-	-
Transfer to Lifetime ECL (not credit impaired)	(375,210)	3,215,756	(2,840,546)	-
Transfer to Lifetime ECL (credit impaired)	-	(651,355)	651,355	-
New originations during the year	1,495,713	-	-	1,495,713
Reversal of provision previously written off	-	-	974,198	974,198
Net change for the period	(3,737,504)	(532,592)	(3,792,051)	(8,062,147)
<b>Closing balance</b>	<b>4,079,901</b>	<b>4,945,250</b>	<b>16,438,165</b>	<b>25,463,316</b>

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.

Investments in finance lease - gross	12 Month ECL	Lifetime ECL as at 2022		Total
		Not credit Impaired	Credit impaired	
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)
<b>Closing balance</b>	<b>3,420,777,735</b>	<b>252,011,820</b>	<b>172,971,795</b>	<b>3,845,761,350</b>

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Loss allowance	12 Month ECL	Lifetime ECL as at 2022		Total
		Not credit Impaired	Credit impaired	
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

**Murabaha receivables**

Murabaha receivables - gross	12 Month ECL	Lifetime ECL as at 2023		Total
		Not credit Impaired	Credit impaired	
Opening balance at 1 January	298,957,600	8,703,946	1,458,303	309,119,849
Transfer to 12 Month ECL	5,623,563	(5,623,563)	-	-
Transfer to Lifetime ECL (not credit impaired)	(18,014,058)	18,014,058	-	-
Transfer to Lifetime ECL (credit impaired)	-	(5,606,346)	5,606,346	-
New originations during the year	287,834,876	-	-	287,834,876
Net change for the year	(15,985,208)	(226,956)	(89,762)	(16,301,926)
Closing balance	558,416,773	15,261,139	6,974,887	580,652,799

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, 2022, the portfolio was fairly new, however, with the passage of time and increase in overdue balances, the loss allowance has also increased.

Loss allowance	12 Month ECL	Lifetime ECL as at 2023		Total
		Not credit Impaired	Credit impaired	
Opening balance at 1 January	436,508	378,746	190,265	1,005,519
Transfer to 12 Month ECL	249,705	(249,705)	-	-
Transfer to Lifetime ECL (not credit impaired)	(114,170)	114,170	-	-
Transfer to Lifetime ECL (credit impaired)	-	(119,033)	119,033	-
New originations during the year	1,452,758	-	-	1,452,758
Net change for the year	(321,019)	164,407	762,915	606,303
Closing balance	1,703,782	288,585	1,072,213	3,064,580

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Murabaha receivables - gross	12 Month ECL	Lifetime ECL as at 2022		Total
		Not credit Impaired	Credit impaired	
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

Loss allowance	12 Month ECL	Lifetime ECL as at 2022		Total
		Not credit Impaired	Credit impaired	
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

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

	2023	2022
Reversal of allowance - investment in finance lease (note 10)	(6,566,434)	(27,855,531)
Charge for the year - Murabaha receivables (note 11)	2,059,061	934,528
(Reversal) /charge for the year - insurance claims receivable, deceased cases (note 8)	(1,946,525)	1,702,520
Impairment loss on other real estate (note 13)	2,789,493	1,484,675
Allowance against receivable under litigation (note 8)	-	396,978
Insurance claims receivable written off (note 8)	-	1,879,191
Total	(3,664,405)	(21,457,639)

**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 excluding personal and small and middle size portfolio. 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.

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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.

Loan to Value (SR '000)	Fair value	
	2023	2022
Less than 50%	2,980	14,740
51-70%	97,344	150,289
More than 70%	150,689	173,462
Total stage 3 collateral	251,013	338,491
Total stage 3 EAD	133,278	174,430

**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.

2023	No					Total
	contractual maturity	Within 3 months	3-12 months	2-5 years	Over 5 years	
<b>Assets</b>						
Cash and bank balances	-	80,272,437	-	-	-	80,272,437
Investment held at FVOCI	892,850	-	-	-	-	892,850
Invest. in finance lease (gross)	-	138,946,705	415,702,873	2,000,939,257	3,113,222,468	5,668,811,303
Murabaha receivables	-	25,899,010	77,788,514	308,396,705	509,392,215	921,476,444
Other receivables, net	5,387,365	2,651,398	2,821,361	14,778,531	-	25,638,655
Due from a related party	-	503,862	-	-	-	503,862
<b>Total assets</b>	<b>6,280,215</b>	<b>248,273,412</b>	<b>496,312,748</b>	<b>2,324,114,493</b>	<b>3,622,614,683</b>	<b>6,697,595,551</b>
<b>Liabilities</b>						
Tawarruq financing facilities (gross)	-	306,735,847	380,484,335	2,353,948,092	239,044,584	3,280,212,857
Accounts payable and other liabilities	5,387,365	9,134,204	-	-	-	14,521,569
Lease liability	-	2,237,037	446,812	-	-	2,683,849
<b>Total liabilities</b>	<b>5,387,365</b>	<b>318,107,088</b>	<b>380,931,147</b>	<b>2,353,948,092</b>	<b>239,044,584</b>	<b>3,297,418,275</b>
<b>Net</b>	<b>892,850</b>	<b>(69,833,676)</b>	<b>115,381,601</b>	<b>(29,833,599)</b>	<b>3,383,570,099</b>	<b>3,400,177,276</b>

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2022	No					Total
	contractual maturity	Within 3 months	3-12 months	2-5 years	Over 5 years	
<b>Assets</b>						
Cash and bank balances	-	42,847,283	-	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
<b>Total assets</b>	<b>6,280,215</b>	<b>197,580,781</b>	<b>344,997,442</b>	<b>2,197,875,146</b>	<b>3,695,023,678</b>	<b>6,441,757,262</b>

2022	No					Total
	contractual maturity	Within 3 months	3-12 months	2-5 years	Over 5 years	
<b>Liabilities</b>						
Tawarruq financing facilities (gross)	-	499,184,567	892,539,531	1,293,871,414	318,272,366	3,003,867,878
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
<b>Total liabilities</b>	<b>5,387,365</b>	<b>508,299,551</b>	<b>894,775,952</b>	<b>1,294,747,931</b>	<b>318,272,366</b>	<b>3,021,483,165</b>
<b>Net</b>	<b>892,850</b>	<b>(310,718,770)</b>	<b>(549,778,510)</b>	<b>903,127,215</b>	<b>3,376,751,312</b>	<b>3,420,274,097</b>

**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 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	2023	2022
Variable interest rate-based Investment in finance lease	+10	277,382	193,268
	-10	(277,382)	(193,268)

	Increase/ decrease in basis		
	points	2023	2022
Tawarruq financing facilities	+10	2,138,773	2,024,290
	-10	(2,138,773)	(2,024,290)

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.

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**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 and investment in finance lease in accordance with IFRS 16.

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 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, Murabaha receivables and Tawarruq financing facilities which are measured in accordance with respective IFRSs requirements.

***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 derivative financial instrument 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.

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The Company monitors the adequacy of its capital using below measures:

	<u>2023</u>	<u>2022</u>
Capital ratio	<u>22.97%</u>	<u>22.89%</u>

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.

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

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.

	<u>2023</u>	<u>2022</u>
Aggregate financing to capital ratio <i>(Net investment in finance lease and Murabaha receivables divided by total shareholders' equity)</i>	<u>2.52 times</u>	<u>2.41 times</u>

**33. CONTINGENCIES**

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. However, adequate and sufficient provision has been recognized as of the reporting date.

Further, the Company is also a plaintiff in a number of lawsuits mainly relating to eviction from properties and maintenance claim where any expected recovery, representing a contingent asset has not been recognized in accordance with IFRSs.

**34. NON-CASH CHANGES**

	<u>2023</u>	<u>2022</u>
Additions to lease liability and right of use assets	<u>-</u>	<u>931,149</u>

**35. 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.

**36. BOARD OF DIRECTORS APPROVAL**

These financial statements were authorised for issue by the Board of Directors through their resolution approved by circulation dated February 27, 2024.