UNITED COMPANY FOR FINANCIAL SERVICES
(A SAUDI CLOSED JOINT STOCK COMPANY)

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

UNITED COMPANY FOR FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Page
Independent auditor's report	2 - 3
Statement of financial position	4
Statement of profit or loss and other comprehensive income	5
Statement of changes in equity	6
Statement of cash flows	7
Notes to the financial statements	8 - 43

Independent auditor's report to the shareholder of United Company for Financial Services

Report on the audit of the financial statements

Our opinion

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

What we have audited

The Company's financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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

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

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

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

PricewaterhouseCoopers, License No. 25,
Al Hugayet Tower, P.O. Box 467, Dhahran Airport 31932, Kingdom of Saudi Arabia
T: +966 (13) 849-6311, F: +966 (13) 849-6281, www.pwc.com/middle-east

pwc

Independent auditor's report to the shareholder of United Company for Financial Services (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

PricewaterhouseCoopers

Ali A. Alotaibi
License Number 379

14 February 2023

PRICEWATERHOUSE COOPERS
CERTIFIED PUBLIC ACCOUNTANTS

UNITED COMPANY FOR FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)
Statement of financial position
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 31 December 2022	2021
Assets			
Cash and cash equivalents	4	**21,132,397**	34,278,848
Prepayments and other receivables	5	**14,875,130**	14,847,526
Investment in Islamic financing contracts	6	**1,554,622,774**	1,186,060,140
Property and equipment	7	**4,668,650**	5,464,958
Intangible assets	8	**17,361,941**	16,933,534
Total assets		**1,612,660,892**	1,257,585,006
Equity and liabilities			
Equity			
Share capital	9	**350,000,000**	350,000,000
Statutory reserve	10	**32,494,661**	13,132,432
Retained earnings		**292,451,955**	118,191,890
Actuarial reserve	14	**(379,476)**	(582,709)
Net equity		**674,567,140**	480,741,613
Liabilities			
Trade and other payables	11,15	**72,931,317**	80,305,069
Zakat payable	12	**22,183,669**	15,423,663
Borrowings	13	**837,473,437**	675,743,904
Employee benefit obligations	14	**5,505,329**	5,370,757
Total liabilities		**938,093,752**	776,843,393
Total equity and liabilities		**1,612,660,892**	1,257,585,006

The accompanying notes are an integral part of these financial statements.

UNITED COMPANY FOR FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)
Statement of profit or loss and other comprehensive income
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December	
		2022	**2021**
Income from Islamic financing contracts	16	**416,957,234**	300,895,114
Finance cost	13	**(27,778,499)**	(11,216,610)
Net income from Islamic financing contracts		**389,178,735**	289,678,504
General and administrative expenses	17	**(49,595,184)**	(40,761,640)
Selling and marketing expenses	18	**(87,826,026)**	(80,674,658)
Net impairment losses on financial assets	6	**(40,753,588)**	(26,303,698)
Other income - net		**4,131,239**	1,144,190
Profit before zakat		**215,135,176**	143,082,698
Zakat expense	12	**(21,512,882)**	(14,308,270)
Profit for the year		**193,622,294**	128,774,428
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of employee benefit obligations	14	**203,233**	200,063
Total comprehensive income for the year		**193,825,527**	128,974,491
Earnings per share			
Basic and diluted	19	**5.53**	3.68

The accompanying notes are an integral part of these financial statements.

UNITED COMPANY FOR FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)
Statement of changes in equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Actuarial reserve	Total
At 1 January 2021		350,000,000	254,989	2,294,905	(782,772)	351,767,122
Profit for the year		-	-	128,774,428	-	128,774,428
Other comprehensive income for the year		-	-	-	200,063	200,063
Total comprehensive income for the year		-	-	128,774,428	200,063	128,974,491
Transfer to statutory reserve	10	-	12,877,443	(12,877,443)	-	-
At 31 December 2021		350,000,000	13,132,432	118,191,890	(582,709)	480,741,613
Profit for the year		-	-	193,622,294	-	**193,622,294**
Other comprehensive income for the year		-	-	-	203,233	**203,233**
Total comprehensive income for the year		-	-	193,622,294	203,233	**193,825,527**
Transfer to statutory reserve	10	-	19,362,229	(19,362,229)	-	-
At 31 December 2022		**350,000,000**	**32,494,661**	**292,451,955**	**(379,476)**	**674,567,140**

The accompanying notes are an integral part of these financial statements.

UNITED COMPANY FOR FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)
Statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December 2022	2021
Cash flows from operating activities			
Profit before zakat		**215,135,176**	143,082,698
Adjustments for:			
Depreciation and amortization	7,8	**3,997,263**	2,613,798
Finance costs		**27,778,499**	11,216,610
Intangible assets written off	8	-	71,682
Property and equipment written off	7	**36,429**	380
Net impairment losses on financial assets	6	**40,753,588**	26,303,698
Employee benefit obligations	14	**1,645,544**	1,500,025
Changes in working capital:			
Increase in investment in Islamic financing contracts		**(409,316,221)**	(509,196,937)
Increase in prepayments and other receivables		**(27,604)**	(11,356,649)
(Decrease) increase in trade and other payables		**(7,373,754)**	1,329,431
Cash utilized in operations		**(127,371,080)**	(334,435,264)
Finance costs paid		**(23,003,134)**	(11,133,836)
Zakat paid	12	**(14,752,876)**	(4,205,116)
Employee benefit obligations paid	14	**(1,307,739)**	(453,848)
Net cash outflow from operating activities		**(166,434,829)**	(350,228,064)
Cash flows from investing activities			
Payments for purchases of property and equipment	7	**(853,190)**	(2,204,200)
Payments for additions to intangible assets	8	**(2,812,601)**	(5,271,235)
Net cash outflow from investing activities		**(3,665,791)**	(7,475,435)
Cash flows from financing activities			
Proceeds from long-term borrowings	13	**396,000,000**	510,000,000
Proceeds from short-term borrowings	13	**250,000,000**	-
Repayment of long-term borrowings	13	**(489,045,831)**	(55,020,834)
Repayment of short-term borrowings	13	-	(120,000,000)
Net cash inflow from financing activities		**156,954,169**	334,979,166
Net decrease in cash and cash equivalents		**(13,146,451)**	(22,724,333)
Cash and cash equivalents at beginning of year		**34,278,848**	57,003,181
Cash and cash equivalents at end of year	4	**21,132,397**	34,278,848

The accompanying notes are an integral part of these financial statements.

1 Legal status and operations

United Company for Financial Services ("the Company") is a Saudi Closed Joint Stock Company, registered in the Kingdom of Saudi Arabia under the Commercial Registration ("CR") number 2051224103 issued in Al-Khobar on 15 Jumada Al Awwal 1440 H (21 January 2019).

The Company's head office is located in Al-Khobar, Kingdom of Saudi Arabia. The Company is a subsidiary of United International Holding Company ("UIHC'), a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia which is ultimately controlled by United Electronics Company ("UEC"), a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, which is principally engaged in the retail of electric appliances and electronic gadgets etc. Also see Note 9.

The principal business activities of the Company include various types of Islamic consumer finance services under license number 201905/Ash/52 and 42075295, obtained from Saudi Central Bank ("SAMA") issued on 26 Shaban 1440 H (1 May 2019) and 8 Shawwal 1442 H (20 May 2021) respectively. The Company offers Murabaha (product finance), Tawarruq (personal finance) and credit card finance services to individual customers in the Kingdom of Saudi Arabia. Such financing arrangements are unsecured and the profit rates for Murabaha and Tawarruq financing services are agreed at the inception of the contract with the customers. Collections are thereafter made in the form of monthly installments generally received from the customers through variable channels such as SADAD and bank transfers. The Company's investment in Islamic financing contracts comprises individually immaterial balances due from a large customer base and accordingly, the Company does not have any significant concentration of credit risk. Also see Note 6 and 20.

Murabaha financing arrangements are principally entered into with the customers of UEC but also include transactions with other retailers.

During 2022, the Company has commenced credit card financing activities and expects to further scale up such financing activities during 2023.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

a) Statement of compliance

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

b) Historical cost convention

These financial statements are prepared under the historical cost convention except as otherwise disclosed in the relevant accounting policies below.

c) Basis of presentation

The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances are classified as current: cash and cash equivalents, trade and other payables and zakat payable. The following balances are classified as non-current: property and equipment, intangible assets, and employee benefit obligations. As at 31 December 2022 and 2021, the balances which are of mixed nature i.e. include both current and non-current portions include prepayment and other receivables, investment in Islamic financing contracts and borrowings. See Notes 5, 6 and 13 for breakdown for the current/non-current classification for such balances.

d) New standards and amendment to standards and interpretations

The Company has applied the following amendments for the first time for their reporting period commencing on or after 1 January 2022.

- Covid-19 - Related Rent Concessions - amendments to IFRS 16 'Leases' ("IFRS 16");
- A number of narrow-scope amendments to IFRS 3 'Business combinations' ("IFRS 3"), IAS 16 'Property, plant and equipment' ("IAS 16"), IAS 37 'Provisions, contingent liabilities and contingent assets' ("IAS 37") and some annual improvements on IFRS 1 'First-time Adoption of IFRS' ("IFRS 1"), IFRS 9 'Financial instruments' ("IFRS 9"), IAS 41 'Agriculture' ("IAS 41") and IFRS 16; and
- Lessor forgiveness of lease payments (IFRS 9 and IFRS 16).

No material impact was identified upon adoption of the amended standards.

e) Standards issued but not yet effective

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the 31 December 2022 reporting period and have not been early adopted by the Company.

The Company is required to write-off exposures for deceased customers and accordingly there is an insurance risk under the Islamic financing contracts. Upon adoption of IFRS 17 'Insurance contracts' ("IFRS 17"), the Company expects to make a policy choice to continue to account for such exposures under IFRS 9 'Financial Instruments' instead of IFRS 17. Accordingly, based on management's assessment, no impact is expected upon adoption of IFRS 17.

The management is in the process of assessing the impact of the other new standards and interpretations on its financial statements.

2.2 Foreign currencies

a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The accompanying financial statements have been presented in Saudi Riyals which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies other than Saudi Riyals are recognized in the profit or loss.

2.3 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks including short-term highly liquid investments, with original maturities up to three months, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

2.4 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any, except capital work-in-progress which are carried at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated on property and equipment so as to allocate its cost, less estimated residual value, on a straight-line basis over the estimated useful lives of the assets. Depreciation is charged to profit or loss.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each annual reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Assets in the course of construction or development are capitalized in the capital work-in-progress account. The asset under construction or development is transferred to the appropriate category in property and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of capital work-in-progress comprises its purchase price, construction / development costs and any other directly attributable costs to the construction or acquisition of an item of capital work-in-progress intended by management. Capital work-in-progress is not depreciated.

2.5 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets acquired in a business combination are recognized at their fair value. Intangible assets under development are stated at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite.

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

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

2.6 Leases

At the inception of the contract, the Company assesses whether a contract is or contains a lease. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liabilities

The lease liability is initially measured at the net present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:
- where possible, uses recent third-party financing received by the Company as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, if the Company does not have recent third-party financing, and
- makes adjustments specific to the lease, for example term, currency and security.

Lease liabilities include the net present value of the following lease payments:

- fixed lease payments, less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets (ROU)

The Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement dates, plus any initial direct costs incurred and future restoration costs, if any. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any.

Right-of-use assets are depreciated over the shorter period of the lease term or the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company has not recognised any lease liabilities or right-of-use assets in the accompanying financial statements as all lease arrangements i.e. leases for office premises, marketing kiosks etc. are short-term arrangements. Payments associated with such short-term leases are recognised on a straight-line basis as an expense in profit or loss.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 "Impairment of Assets" to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

2.7 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that a non-financial 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 unit's (CGU) fair value less costs 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 groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously 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 recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.8 Borrowings

Borrowings are initially recognized at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition, borrowings are measured at amortized cost using the effective profit rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective profit rate method.

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

2.9 Employee benefit obligations

The level of benefit is based on the terms and conditions of the labor laws applicable to the Company on termination of their employment contracts.

The post-employment benefits plans are not funded. Accordingly, valuations of the obligations under the plans are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consists of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to employment benefits are recognized immediately in profit or loss while unwinding of the liability at discount rates used are recorded in profit or loss. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in the other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income and transferred to actuarial reserve in the statement of changes in equity in the period in which they occur.

Changes in the present value of defined benefit obligations resulting from the plan amendments or curtailments are recognized immediately in profit or loss as past service costs. The Company has no further payment obligations once the contributions have been paid.

2.10 Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and airfare allowance etc., that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period, and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented within accrued employees' costs under trade and other payables in the statement of financial position.

2.11 Provisions

Provisions are recognized when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

2.12 Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method.

2.13 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Income from Islamic financing contracts is recognized in profit or loss using the effective yield method, by applying the Effective Profit Rate ("EPR"), on the outstanding balance over the term of the contract.

The effective profit rate is the rate that exactly discounts estimated future cash receipts through the expected life of the investment in Islamic financing contracts to their gross carrying amounts.

The calculation of EPR includes transaction costs and processing fees income received that represent an integral part of the EPR. Transaction costs include incremental costs that are directly attributable to the acquisition of the financial assets, such as costs pertaining to evaluation of customers' credit worthiness, sales commission etc. Processing fees is charged in respect of processing of Islamic financing contracts.

2.14 Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.15 Zakat

The Company is subject to zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Additional amounts, if any, are accounted for when determined to be required for payment.

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

2.16 Financial Instruments

2.16.1 Financial Assets

a) Classification

Classification and subsequent measurement of debt instruments depend on:

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

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

SPPP: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payment of principal and profit (the "SPPP" test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. profit includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement, including the impact of prepayment and early termination features of the contract. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

This classification is based on the business model of the Company for managing the financial assets, and contractual cash flow characteristics.

The Company measures financial asset at amortised cost when it is within the business model to hold assets in order to collect contractual cash flows, and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

The Company's financial assets are classified and measured at amortised cost as such assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit ("SPPP").

b) Recognition and measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of Company's financial assets are at amortised cost. Financial income from these financial assets is included in finance income using the effective profit rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Instances of modifications to the terms of the Company's financial assets are rare, considering that the acceptance of modification request from the customers is at the discretion of the Company, except for cases as mandated by SAMA regulations. Modifications to the investment in Islamic financing contracts have an immaterial impact on the accompanying financial statements. Also see Note 20.

c) De-recognition of financial assets

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

d) Impairment

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company applies the three-stage model for impairment of Investment in Islamic financing contracts, based on changes in credit quality since initial recognition.

Stage 1 ("Performing") includes financial assets that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these financial assets, 12-month expected credit losses ("ECL") are recognised and financial income is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). A 12-month ECL is the ECL that results from default events that are possible within 12-months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset, weighted by the probability that the loss will occur in the next 12-months.

Stage 2 ("Under-performing") includes financial assets that have had a significant increase in credit risk since initial recognition, but do not have objective evidence of impairment. A significant increase in credit risk is presumed if a receivable is more than 30 days past due. For these financial assets, lifetime ECL are recognised, but financial income is still calculated on the gross carrying amount of the asset. Lifetime ECL is the ECL that results from all possible default events over the maximum contractual period during which the Company is exposed to credit risk. ECL is the weighted average credit losses, with the respective risks of a default occurring as the weights.

Stage 3 ("Non-performing") includes financial assets that have objective evidence of impairment at the reporting date. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due, which is fully aligned with the definition of credit-impaired under IFRS 9. For these financial assets, lifetime ECL are recognised and financial income is calculated on the net carrying amount (that is, net of credit allowance).

The Company, when determining whether the credit risk on a financial asset has increased significantly since the initial recognition of the financial asset, considers the 'days past due' analysis of each exposure and certain other qualitative factors such as monitoring the forward-looking information about financial difficulties faced by private sector employers of the customers and nationalization targets for specific industry groups etc. Management considers such analysis to be an effective and efficient measure of monitoring significant increase in credit risk, without undue cost and effort, as it enters into Islamic Financing Contracts with individual customers only.

Financial assets are written-off only when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include amongst others, customers' failure to make contractual payments for a period of greater than 365 days past default and or engage with the Company's collection team. Furthermore, all outstanding exposures from deceased customers are written off immediately.

Where financial assets are written-off, the Company continues to engage enforcement activities to attempt to recover the receivable due, except for balances written off for deceased customers, which are immaterial. Recoveries made, after write-off, are recognized in 'Net impairment losses on financial assets' in profit or loss.

Impairment losses on financial assets are presented separately on the statement of profit or loss and other comprehensive income. For details regarding credit risk management, refer Note 20.

2.16.2 Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortised cost using the effective interest rate method.

A financial liability is derecognised when the obligation is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in profit or loss.

2.16.3 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right, which is not contingent on anything, to set off the recognised amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

2.17 Investment in Islamic financing contracts

2.17.1 Tawarruq financing contracts

Tawarruq is an agreement wherein the Company sells a product to its customer which the Company has purchased and subsequently to such sale, arranges to sell the underlying asset and pay out the sale proceeds to the customer. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Tawarruq sale contracts include the total sale payments on the Tawarruq agreement ("Tawarruq financing contracts"). The difference between the Tawarruq financing contracts and the cost of the product sold, is recorded as unearned Tawarruq profit and for presentation purposes, is deducted from the gross amounts due under the reconciliation of gross and net investment amount under Tawarruq financing contracts.

2.17.2 Murabaha financing contracts

Murabaha is an Islamic form of financing wherein, the Company based on request from its customers, purchases specific commodities and sells them to the customers at a price equal to the Company's cost-plus profit, payable on deferred basis in installments. The difference between the Murabaha sale contracts receivable and the cost of the sold asset, is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the reconciliation of gross and net investment amount under the Murabaha financing contracts.

2.18 Islamic credit card receivables

Islamic credit card receivables are initially measured at the fair value-which is the cash consideration to originate the receivable including transaction costs. Following initial recognition, the receivables are stated at amortized cost.

2.19 Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on liquidity. However, an asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by SOCPA, requires the use of certain critical estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The management makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and judgments that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve-month period are discussed below:

a) Critical accounting estimate

(i) Measurement of ECL allowance on investment in Islamic financing contracts

Measurement of ECL allowance on investment in Islamic financing contracts is an estimate that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year. See Notes 6 and 20.

b) Critical accounting judgements

(i) Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. Management has exercised judgement in determining that its lease agreements for office space and other kiosks etc. are short term in nature considering expected expansion of workforce, insignificant leasehold improvements, analysis of utility of the kiosks and expectation of no significant business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

(ii) SPPP Test:

Management has assessed the prepayment and early termination features of the contract which require the customers to pay certain compensation in addition to the outstanding principal and accrued profit. However, management believes that such additional amounts represent 'reasonable compensation' for the reinvestment costs.

Furthermore, the contractual provisions also stipulate that in the event of default of payment of two consecutive installments by the customer, the entire contract amount becomes payable upon demand by the Company at its discretion. However, the Company pursues legal action to recover its outstanding dues only upon meeting certain additional requirements as set out in the applicable SAMA regulations and the amounts to be recovered from the customer, representing the outstanding principal and profit is determined by the outcome of the legal action. Accordingly, management believes that the contractual cashflows of investment in Islamic financing contracts meet the SPPP test.

(All amounts in Saudi Riyals unless otherwise stated)

4 Cash and cash equivalents

	2022	2021
Cash in hand	**5,000**	13,050
Cash at bank	**21,127,397**	34,265,798
	21,132,397	34,278,848

Also see Note 20.

5 Prepayment and other receivables

	2022	2021
Prepaid expenses	**12,900,034**	12,587,255
Advances to employees	**678,699**	742,745
Advances to suppliers	**193,067**	722,831
Other receivables	**1,103,330**	794,695
	14,875,130	14,847,526

Classification of prepayments and other receivables is presented below:

Due within 12 months	**13,544,639**	11,617,622
Due after 12 months	**1,330,491**	3,229,904
	14,875,130	14,847,526

Also see Note 15.2 and Note 20.

6 Investment in Islamic financing contracts

	2022	2021
Investment in Tawarruq financing contracts, net	**1,149,837,518**	832,643,696
Investment in Murabaha financing contracts, net	**398,318,567**	353,416,444
Investment in Islamic credit cards, net	**6,466,689**	-
	1,554,622,774	1,186,060,140
Less: Due after 12 months	**(894,027,755)**	(748,432,280)
Due within 12 months	**660,595,019**	437,627,860

(All amounts in Saudi Riyals unless otherwise stated)

6.1 Reconciliation between gross and net investment in Islamic financing contracts is as follows:

	Tawarruq finance		Murabaha finance		Islamic credit card		Total	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Gross investment in Islamic financing contracts	**1,756,429,044**	1,314,158,451	**531,814,471**	490,019,644	**6,831,628**	-	**2,295,075,143**	1,804,178,095
Unearned finance and processing fee income	**(566,527,502)**	(457,581,869)	**(127,169,940)**	(127,172,415)	**-**	-	**(693,697,442)**	(584,754,284)
Present value of investment in Islamic financing contracts ("P.V of I.F.C.")	**1,189,901,542**	856,576,582	**404,644,531**	362,847,229	**6,831,628**	-	**1,601,377,701**	1,219,423,811
Allowance for ECL/net impairment on financial assets	**(40,064,024)**	(23,932,886)	**(6,325,964)**	(9,430,785)	**(364,939)**	-	**(46,754,927)**	(33,363,671)
Net investment in Islamic financing contracts ("Net investment in I.F.C.")	**1,149,837,518**	832,643,696	**398,318,567**	353,416,444	**6,466,689**	-	**1,554,622,774**	1,186,060,140
Net investment in I.F.C. - Due after 12 months	**(773,390,465)**	(616,068,175)	**(120,637,290)**	(132,364,105)	**-**	-	**(894,027,755)**	(748,432,280)
Net investment in I.F.C. - Due within 12 months	**376,447,053**	216,575,521	**277,681,277**	221,052,339	**6,466,689**	-	**660,595,019**	437,627,860

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

	Tawarruq finance		Murabaha finance		Islamic credit card		Total	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Opening balance	**23,932,886**	14,734,809	**9,430,785**	5,882,182	**-**	-	**33,363,671**	20,616,991
Charge for the year	**42,044,281**	19,374,646	**5,449,115**	6,920,310	**364,939**	-	**47,858,335**	26,294,956
Recoveries of amounts previously written-off	**(4,691,718)**	-	**(2,413,029)**	-	**-**	-	**(7,104,747)**	-
Net charge for the year	**37,352,563**	19,374,646	**3,036,086**	6,920,310	**364,939**	-	**40,753,588**	26,294,956
Amounts written-off	**(21,221,425)**	(10,176,569)	**(6,140,907)**	(3,371,707)	**-**	-	**(27,362,332)**	(13,548,276)
Closing balance	**40,064,024**	23,932,886	**6,325,964**	9,430,785	**364,939**	-	**46,754,927**	33,363,671

(All amounts in Saudi Riyals unless otherwise stated)

6.3 Stage-wise analysis of Islamic financing contracts and the respective allowance for ECL/impairment are as follows:

	Tawarruq finance			Murabaha finance			Islamic credit card			Total		
31 December 2022	**P.V of I.F.C.**	**Allowance for ECL**	**Net investment in I.F.C.**	**P.V of I.F.C.**	**Allowance for ECL**	**Net investment in I.F.C.**	**P.V of I.F.C.**	**Allowance for ECL**	**Net investment in I.F.C.**	**P.V of I.F.C.**	**Allowance for ECL**	**Net investment in I.F.C.**
Performing (Stage 1)	1,102,246,076	(10,499,979)	1,091,746,097	378,862,108	(1,407,515)	377,454,593	5,839,977	(46,764)	5,793,213	1,486,948,161	(11,954,258)	1,474,993,903
Under-performing (Stage 2)	18,729,566	(2,889,861)	15,839,705	4,759,049	(196,462)	4,562,587	496,110	(96,229)	399,881	23,984,725	(3,182,552)	20,802,173
Non-performing (Stage 3)	68,925,900	(26,674,184)	42,251,716	21,023,374	(4,721,987)	16,301,387	495,541	(221,946)	273,595	90,444,815	(31,618,117)	58,826,698
	1,189,901,542	(40,064,024)	1,149,837,518	404,644,531	(6,325,964)	398,318,567	6,831,628	(364,939)	6,466,689	1,601,377,701	(46,754,927)	1,554,622,774

	Tawarruq finance			Murabaha finance			Islamic credit card			Total		
31 December 2021	**P.V. of I.F.C.**	**Allowance for ECL**	**Net investment in I.F.C.**	**P.V. of I.F.C.**	**Allowance for ECL**	**Net investment in I.F.C.**	**P.V. of I.F.C.**	**Allowance for ECL**	**Net investment in I.F.C.**	**P.V. of I.F.C.**	**Allowance for ECL**	**Net investment in I.F.C.**
Performing (Stage 1)	812,453,495	(6,019,104)	806,434,391	341,693,147	(1,719,015)	339,974,132	-	-	-	1,154,146,642	(7,738,119)	1,146,408,523
Under-performing (Stage 2)	9,813,848	(2,067,066)	7,746,782	5,149,276	(574,371)	4,574,905	-	-	-	14,963,124	(2,641,437)	12,321,687
Non-performing (Stage 3)	34,309,239	(15,846,716)	18,462,523	16,004,806	(7,137,399)	8,867,407	-	-	-	50,314,045	(22,984,115)	27,329,930
	856,576,582	(23,932,886)	832,643,696	362,847,229	(9,430,785)	353,416,444	-	-	-	1,219,423,811	(33,363,671)	1,186,060,140

(All amounts in Saudi Riyals unless otherwise stated)

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

	Performing (Stage 1)	Under-performing (Stage 2)	Non-Performing (Stage 3)	Total
2022				
1 January 2022	**7,738,119**	**2,641,437**	**22,984,115**	**33,363,671**
Individual financial assets transferred to under-performing (lifetime expected credit losses)	**(1,865,745)**	**3,134,989**	**(145,754)**	**1,123,490**
Individual financial assets transferred to non-performing (credit-impaired financial assets)	**(10,966,142)**	**(1,600,307)**	**30,266,609**	**17,700,160**
Individual financial assets transferred to performing (12-month expected credit losses)	**39,698**	**(361,128)**	**(328,977)**	**(650,407)**
New financial assets originated	**19,074,178**	**-**	**-**	**19,074,178**
Amounts written-off	**(63,444)**	**(127,666)**	**(27,171,222)**	**(27,362,332)**
Other changes	**(2,002,406)**	**(504,773)**	**6,013,346**	**3,506,167**
31 December 2022	**11,954,258**	**3,182,552**	**31,618,117**	**46,754,927**

	Performing (Stage 1)	Under-performing (Stage 2)	Non-Performing (Stage 3)	Total
2021				
1 January 2021	6,257,369	1,381,582	12,978,040	20,616,991
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(1,651,528)	2,617,190	(103,526)	862,136
Individual financial assets transferred to non-performing (credit-impaired financial assets)	(7,802,181)	(924,692)	22,140,615	13,413,742
Individual financial assets transferred to performing (12-month expected credit losses)	11,351	(377,736)	(593,292)	(959,677)
New financial assets originated	14,251,356	-	-	14,251,356
Amounts written-off	(126,114)	(111,848)	(13,310,314)	(13,548,276)
Other changes	(3,202,134)	56,941	1,872,592	(1,272,601)
31 December 2021	7,738,119	2,641,437	22,984,115	33,363,671

UNITED COMPANY FOR FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)
Notes to the financial statements for the year ended 31 December 2022
(All amounts in Saudi Riyals unless otherwise stated)

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

	Tawarruq finance			Murabaha finance			Islamic Credit Card			Total		
2022	Performing (Stage 1)	Under-performing (Stage 2)	Non-performing (Stage 3)	Performing (Stage 1)	Under-performing (Stage 2)	Non-performing (Stage 3)	Performing (Stage 1)	Under-performing (Stage 2)	Non-performing (Stage 3)	Performing (Stage 1)	Under-performing (Stage 2)	Non-performing (Stage 3)
At 1 January	6,019,104	2,067,066	15,846,716	1,719,015	574,371	7,137,399	-	-	-	7,738,119	2,641,437	22,984,115
Individual financial assets transferred to												
- under-performing (lifetime expected credit losses)	(1,596,879)	2,837,283	(136,205)	(172,637)	201,477	(9,549)	(96,229)	96,229	-	(1,865,745)	3,134,989	(145,754)
- non-performing (credit-impaired financial assets)	(8,827,555)	(1,312,838)	26,781,022	(1,916,641)	(287,469)	3,263,641	(221,946)	-	221,946	(10,966,142)	(1,600,307)	30,266,609
- performing (12-month expected credit losses)	36,518	(273,720)	(222,316)	3,180	(87,408)	(106,661)	-	-	-	39,698	(361,128)	(328,977)
New financial assets originated	15,753,053	-	-	2,979,368	-	-	341,757	-	-	19,074,178	-	-
Amounts written-off	(53,355)	(80,777)	(21,087,293)	(10,089)	(46,889)	(6,083,929)	-	-	-	(63,444)	(127,666)	(27,171,222)
Other changes	(830,907)	(347,153)	5,492,260	(1,194,681)	(157,620)	521,086	23,182	-	-	(2,002,406)	(504,773)	6,013,346
At 31 December	10,499,979	2,889,861	26,674,184	1,407,515	196,462	4,721,987	46,764	96,229	221,946	11,954,258	3,182,552	31,618,117

(All amounts in Saudi Riyals unless otherwise stated)

2021	Tawarruq finance			Murabaha finance			Islamic Credit Card			Total		
	Performing (Stage 1)	Under-performing (Stage 2)	Non-performing (Stage 3)	Performing (Stage 1)	Under-performing (Stage 2)	Non-performing (Stage 3)	Performing (Stage 1)	Under-performing (Stage 2)	Non-performing (Stage 3)	Performing (Stage 1)	Under-performing (Stage 2)	Non-performing (Stage 3)
At 1 January	4,424,601	1,071,306	9,238,902	1,832,768	310,276	3,739,138	-	-	-	6,257,369	1,381,582	12,978,040
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(1,219,726)	2,048,711	(100,866)	(431,802)	568,479	(2,660)	-	-	-	(1,651,528)	2,617,190	(103,526)
non-performing (credit-impaired financial assets)	(4,834,894)	(753,978)	15,197,024	(2,967,287)	(170,714)	6,943,591	-	-	-	(7,802,181)	(924,692)	22,140,615
performing (12-mont expected credit losses)	8,678	(265,197)	(460,041)	2,673	(112,539)	(133,251)	-	-	-	11,351	(377,736)	(593,292)
New financial assets originated	9,649,967	-	-	4,601,389	-	-	-	-	-	14,251,356	-	-
Amounts written-off	(117,042)	(92,717)	(9,966,810)	(9,072)	(19,131)	(3,343,504)	-	-	-	(126,114)	(111,848)	(13,310,314)
Other changes	(1,892,480)	58,941	1,938,507	(1,309,654)	(2,000)	(65,915)	-	-	-	(3,202,134)	56,941	1,872,592
At 31 December	6,019,104	2,067,066	15,846,716	1,719,015	574,371	7,137,399	-	-	-	7,738,119	2,641,437	22,984,115

Following factors contributed to the change in the ECL allowance during the year ended 31 December 2022:

- Transfers between Stage 1, 2 and 3, due to balances experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;

- While the total exposure in Stage 1 and 2 has increased during 2022, the Company has updated the historical collection and default information used to arrive at the weighted average PDs which are lower than the prior year. Furthermore, impact of change in LGD used for computing ECL on Murabaha portfolio has contributed towards a decrease in ECL. Also see Note 20;

- Additional allowances for new financial assets recognised during the year;

- Financial assets written off; and

- On exposures under Stage 3, 'Other changes' principally represent net impact of additional allowance for ECL recognized upon write-offs amounting to Saudi Riyals 12.5 million which has been partially offset by recoveries from previously written-off exposures amounting to Saudi Riyals 5.3 million. Also see Note 20.

(All amounts in Saudi Riyals unless otherwise stated)

6.6 Category-wise movement in stage-wise gross investment in Islamic financing contracts is as follows:

	Tawarruq finance			Murabaha finance			Islamic Credit Card			Total		
2022	**Performing (Stage 1)**	**Under-performing (Stage 2)**	**Non-performing (Stage 3)**	**Performing (Stage 1)**	**Under-performing (Stage 2)**	**Non-performing (Stage 3)**	**Performing (Stage 1)**	**Under-performing (Stage 2)**	**Non-performing (Stage 3)**	**Performing (Stage 1)**	**Under-performing (Stage 2)**	**Non-performing (Stage 3)**
At 1 January	1,246,333,753	14,700,390	53,127,073	461,595,891	6,693,536	21,727,452	-	-	-	1,707,929,644	21,393,926	74,854,525
Individual financial assets transferred to												
under-performing (lifetime expected credit losses)	(31,097,576)	31,538,295	(440,719)	(7,485,484)	7,514,849	(29,365)	(496,110)	496,110	-	(39,079,170)	39,549,254	(470,084)
non-performing (credit-impaired financial assets)	(97,467,017)	(9,133,364)	106,600,381	(26,151,955)	(3,145,728)	29,297,683	(495,541)	-	495,541	(124,114,513)	(12,279,092)	136,393,605
performing (12-month expected credit losses)	2,651,979	(1,927,010)	(724,969)	1,250,347	(930,094)	(320,253)	-	-	-	3,902,326	(2,857,104)	(1,045,222)
New financial assets originated	1,020,987,221	-	-	387,672,401	-	-	6,831,628	-	-	1,415,491,250	-	-
Amounts written-off	(53,355)	(80,777)	(21,087,293)	(10,089)	(46,889)	(6,083,929)	-	-	-	(63,444)	(127,666)	(27,171,222)
Collections and other changes	(513,105,215)	(7,641,507)	(36,751,246)	(316,911,622)	(4,343,709)	(18,478,571)	-	-	-	(830,016,837)	(11,985,216)	(55,229,817)
At 31 December	1,628,249,790	27,456,027	100,723,227	499,959,489	5,741,965	26,113,017	5,839,977	496,110	495,541	2,134,049,256	33,694,102	127,331,785

UNITED COMPANY FOR FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)
Notes to the financial statements for the year ended 31 December 2022
(All amounts in Saudi Riyals unless otherwise stated)

	Tawarruq finance			Murabaha finance			Islamic Credit Card			Total		
2021	**Performing (Stage 1)**	**Under-performing (Stage 2)**	**Non-performing (Stage 3)**	**Performing (Stage 1)**	**Under-performing (Stage 2)**	**Non-performing (Stage 3)**	**Performing (Stage 1)**	**Under-performing (Stage 2)**	**Non-performing (Stage 3)**	**Performing (Stage 1)**	**Under-performing (Stage 2)**	**Non-performing (Stage 3)**
At 1 January	719,467,712	7,652,124	26,614,857	340,748,626	5,068,756	10,755,059	-	-	-	1,060,216,338	12,720,880	37,369,916
Individual financial assets transferred to												
under-performing (lifetime expected credit losses)	(16,074,027)	16,471,201	(397,174)	(8,500,847)	8,515,909	(15,062)	-	-	-	(24,574,874)	24,987,110	(412,236)
non-performing (credit-impaired financial assets)	(50,375,746)	(4,568,040)	54,943,786	(22,900,245)	(1,467,036)	24,367,281	-	-	-	(73,275,991)	(6,035,076)	79,311,067
performing (12-mont expected credit losses)	9,107,027	(2,674,923)	(6,432,104)	7,843,702	(3,250,113)	(4,593,589)	-	-	-	16,950,729	(5,925,036)	(11,025,693)
New financial assets originated	886,843,540	-	-	375,114,352	-	-	-	-	-	1,261,957,892	-	-
Amounts written-off	(117,042)	(92,717)	(9,966,810)	(9,072)	(19,131)	(3,343,504)	-	-	-	(126,114)	(111,848)	(13,310,314)
Collections and other changes	(302,517,711)	(2,087,255)	(11,638,247)	(230,700,623)	(2,154,848)	(5,439,971)	-	-	-	(533,218,334)	(4,242,103)	(17,078,218)
At 31 December	1,246,333,753	14,700,390	53,124,073	461,595,891	6,693,536	21,727,452	-	-	-	1,707,929,646	21,393,927	74,854,522

(All amounts in Saudi Riyals unless otherwise stated)

6.7 Maturity profile of gross investment in Islamic financing contracts and present value of investment in Islamic financing contracts is as follows:

	2022	**2021**
Gross investment in Islamic financing contracts		
Within one year	**1,023,379,396**	744,820,501
From one to two years	**648,086,320**	507,928,450
From two to three years	**369,007,000**	305,159,676
From three to four years	**186,002,416**	182,192,169
Four to five years	**68,600,011**	64,077,299
	2,295,075,143	1,804,178,095
Present value of investment in Islamic financing contracts		
Within one year	**761,239,388**	537,568,427
From one to two years	**445,959,549**	341,111,475
From two to three years	**239,064,466**	192,735,203
From three to four years	**114,979,807**	110,520,231
Four to five years	**40,134,491**	37,488,475
	1,601,377,701	1,219,423,811

(All amounts in Saudi Riyals unless otherwise stated)

7 Property and equipment

	Furniture and fixtures	Office equipment	Computers	Leasehold improvements	Capital work-in-progress	Total
2022						
Cost						
1 January	**2,985,677**	**764,513**	**3,811,035**	**308,989**	**-**	**7,870,214**
Additions	**383,778**	**4,579**	**464,833**	**-**	**-**	**853,190**
Write-offs	**(78,487)**	**-**	**-**	**-**	**-**	**(78,487)**
31 December	**3,290,968**	**769,092**	**4,275,868**	**308,989**	**-**	**8,644,917**
Accumulated depreciation						
1 January	**(1,041,039)**	**(82,898)**	**(1,234,244)**	**(47,075)**	**-**	**(2,405,256)**
Additions	**(615,577)**	**(153,218)**	**(814,970)**	**(29,304)**	**-**	**(1,613,069)**
Write-offs	**42,058**	**-**	**-**	**-**	**-**	**42,058**
31 December	**(1,614,558)**	**(236,116)**	**(2,049,214)**	**(76,379)**	**-**	**(3,976,267)**
Net book value	**1,676,410**	**532,976**	**2,226,654**	**232,610**	**-**	**4,668,650**

	Furniture and fixtures	Office equipment	Computers	Leasehold improvements	Capital work-in-progress	Total
2021						
Cost						
1 January	2,630,359	103,066	2,201,766	92,367	638,836	5,666,394
Additions	320,062	83,586	1,211,039	-	589,513	2,204,200
Write-offs	-	-	(380)	-	-	(380)
Transfers	35,256	577,861	398,610	216,622	(1,228,349)	-
31 December	2,985,677	764,513	3,811,035	308,989	-	7,870,214
Accumulated depreciation						
1 January	(465,836)	(18,398)	(556,141)	(24,990)	-	(1,065,365)
Additions	(575,203)	(64,500)	(678,103)	(22,085)	-	(1,339,891)
31 December	(1,041,039)	(82,898)	(1,234,244)	(47,075)	-	(2,405,256)
Net book value	1,944,638	681,615	2,576,791	261,914	-	5,464,958

The estimated useful lives of assets are as follows:

	Number of years
• Furniture and fixtures	5
• Office equipment	5
• Computers	5
• Leasehold improvements	5

(All amounts in Saudi Riyals unless otherwise stated)

8 Intangible assets

	Computer software	Capital work-in-progress	Total
2022			
Cost			
1 January	**12,468,207**	**7,325,663**	**19,793,870**
Additions	**2,173,392**	**639,209**	**2,812,601**
Transfers	**7,651,744**	**(7,651,744)**	**-**
31 December	**22,293,343**	**313,128**	**22,606,471**
Accumulated amortisation			
1 January	**(2,860,336)**	**-**	**(2,860,336)**
Additions	**(2,384,194)**	**-**	**(2,384,194)**
31 December	**(5,244,530)**	**-**	**(5,244,530)**
Net book value	**17,048,813**	**313,128**	**17,361,941**

	Computer software	Capital work-in-progress	Total
2021			
Cost			
1 January	9,957,941	4,695,186	14,653,127
Additions	2,640,758	2,630,477	5,271,235
Write-offs	(130,688)	-	(130,688)
31 December	12,468,011	7,325,663	19,793,674
Accumulated amortisation			
1 January	(1,645,239)	-	(1,645,239)
Additions	(1,273,907)	-	(1,273,907)
Write-offs	59,006	-	59,006
31 December	(2,860,140)	-	(2,860,140)
Net book value	9,607,871	7,325,663	16,933,534

Intangible assets, with finite useful lives, are amortized on a straight-line basis over their estimated useful lives of 5 - 10 years. The remaining useful lives of such intangible assets range from 2 - 10 years.

The Company's capital-work-in-progress as at 31 December 2022 principally comprises the costs incurred related to computer software which is expected to be completed by May 2023 with a total estimated cost of Saudi Riyals 0.7 million.

9 Share capital

The share capital of the Company as of 31 December 2022 and 2021 comprised 35 million shares stated at Saudi Riyals 10 per share, wholly owned by UIHC.

During the year ended 31 December 2021, ownership and control of the Company's share capital was transferred to UIHC, a wholly owned subsidiary of United Electronics Company. The legal formalities including update to underlying shareholder's register and By-laws were completed during January 2022.

10 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws, the Company is required to transfer 10% of the profit for the year to a statutory reserve until such reserve equals to 30% of its share capital. This reserve is currently not available for distribution to shareholders of the Company.

(All amounts in Saudi Riyals unless otherwise stated)

11 Trade and other payables

	Note	2022	2021
Due to related parties	15	**39,907,489**	41,046,239
Trade payables		**14,897,843**	13,454,566
Accrued expenses		**7,958,569**	8,922,883
Accrued salaries and other benefits		**5,996,627**	8,213,313
Accrued Board of Directors' fee		**2,102,978**	1,983,850
Advances from customers		**1,766,113**	6,585,782
Value added tax payable		**301,698**	98,436
		72,931,317	80,305,069

12 Zakat payable

12.1 The principal elements of the approximate zakat base are as follows:

	2022	2021
Equity at beginning of year	**480,741,613**	351,767,122
Non-current liabilities and borrowings	**407,171,989**	523,002,701
Total financing resources	**887,913,602**	874,769,823
Total assets	**1,612,660,892**	1,257,585,006
Zakat assets	**696,602,546**	486,754,234
Zakat assets / Total assets	**43%**	39%
Approximate zakat base	**383,541,809**	338,583,804

In accordance with the regulations of the ZATCA, zakat is payable at 2.577% of zakat base subject to a minimum and maximum capping / threshold of 4 times or 8 times, respectively of profit before zakat.

12.2 Provision for zakat

	2022	2021
1 January	**15,423,663**	5,320,509
Provisions		
-For current year	**22,183,669**	15,423,663
-Adjustments related to prior years	**(670,787)**	(1,115,393)
	21,512,882	14,308,270
Payments	**(14,752,876)**	(4,205,116)
31 December	**22,183,669**	15,423,663

12.3 Status of final assessments

The Company's zakat assessment since inception are currently under review by the ZATCA. The Company has obtained zakat certificates from ZATCA for the years through 2021.

(All amounts in Saudi Riyals unless otherwise stated)

13 Borrowings

	2022	2021
Long-term borrowings		
Murabaha facilities	**581,933,334**	674,979,166
Short-term borrowings		
Murabaha facilities	**250,000,000**	-
	831,933,334	674,979,166
Accrued finance cost	**5,540,103**	764,738
	837,473,437	675,743,904

Classification of borrowings is presented below:

	2022	2021
Due within 12 months (including short-term borrowings)	**435,806,777**	158,111,960
Due after 12 months	**401,666,660**	517,631,944
	837,473,437	675,743,904

The Company has obtained borrowings under Islamic financing arrangements with commercial banks in the Kingdom of Saudi Arabia and has utilized facilities allocated to it from the facilities available to United Electronics Company. Details of the type of borrowings facilities as allocated to and availed by the Company are as follows:

Long-term borrowings:

Murabaha l

Total amount allocated to the Company under such facility is Saudi Riyals 250 million. Each tranche of facility utilization is repayable in 20 quarterly installments commencing 6 months after receipt of the borrowed amount. As at 31 December 2022, the Company had an outstanding loan balance of Saudi Riyals 206.9 million against this facility (31 December 2021: Saudi Riyals 233 million).

Murabaha III

Total amount allocated to the Company under such facility is Saudi Riyals 500 million. Each tranche of facility utilization is repayable in 48 monthly installments commencing 6 months from receipt of the borrowed amount. During 2022, the Company made early repayment of borrowings in full amounting to Saudi Riyals 360.8 million.

Subsequently, the Company obtained an additional amount of Saudi Riyals 25.0 million against such facility which is the outstanding loan balance as at 31 December 2021 (31 December 2021: Saudi Riyals 392.0 million).

Murabaha IV

Total amount allocated to the Company under such facility is Saudi Riyals 400.0 million. Each tranche of facility utilization is repayable in 16 quarterly installments commencing 6 months after receipt of the borrowed amount. As at 31 December 2022, the Company has an outstanding loan balance of Saudi Riyals 350.0 million against this facility (31 December 2021: Saudi Riyals 50.0 million).

Short-term borrowings:

Murabaha ll

Total amount allocated to the Company under such facility is Saudi Riyals 50.0 million. The tenure of the borrowing facility was less than one year, and the amount was settled in February 2021.

Murabaha V

Total amount allocated to the Company under such facility is Saudi Riyals 250 million. The tenure of the borrowing facility is less than one year. As at 31 December 2022, the Company had an outstanding loan balance of Saudi Riyals 250.0 million against this facility (31 December 2021: Nil).

Tawarruq I

Total amount allocated to the Company under such facility is Saudi Riyals 70 million. The tenure of the borrowing facility was less than one year, and the amount was settled in February 2021.

All loan facilities above are denominated in Saudi Riyals and bear financial charges based on Saudi Arabian Interbank Offered Rate ("SAIBOR") ranging between SAIBOR plus 1.1% to 1.4%. Certain credit facility agreements contain financial covenants requiring maintenance of certain financial ratios and other matters, of which the Company was in compliance with at 31 December 2022. Also see Note 21.

The maturities of the Company's borrowings are as follows:

	2022	2021
Less than 6 months	**327,633,342**	71,638,889
Between 6 to 12 months	**81,799,999**	85,708,333
Between 1 and 2 years	**163,599,997**	171,416,667
Between 2 and 5 years	**258,899,996**	342,215,277
Above 5 years	-	4,000,000
	831,933,334	674,979,166

Maturity profile of borrowings, including finance cost component, is disclosed in Note 20.

14 Employee benefit obligations

14.1 General description of the plan

The Company operates a defined benefit plan in line with the Labor Law requirements in the Kingdom of Saudi Arabia. The end of service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labor Law of the Kingdom of Saudi Arabia. Employees' end of service benefit plan is an unfunded plan and the benefit payment obligations are met when they fall due upon termination of or resignation from employment. The latest valuation of employee benefit obligations under the projected unit credit method was carried out by an independent actuary as of 31 December 2022.

14.2 Movement in net liability recognized in the statement of financial position

	2022	2021
As at 1 January	**5,370,757**	4,524,643
Current service cost	**1,474,881**	1,395,500
Interest cost	**170,663**	104,525
Remeasurements	**(203,233)**	(200,063)
Payments	**(1,307,739)**	(453,848)
As at 31 December	**5,505,329**	5,370,757

(All amounts in Saudi Riyals unless otherwise stated)

14.3 Amounts recognized in statement of profit or loss and other comprehensive income

	2022	**2021**
Current service cost	**1,474,881**	1,395,500
Interest cost	**170,663**	104,525
Total amount recognized in profit or loss	**1,645,544**	1,500,025
Remeasurements		
Gain due to change in financial assumptions	**(492,036)**	(272,569)
Gain due to change in demographic assumptions	**(12,327)**	(8,332)
Loss due to change in experience adjustments	**301,130**	80,838
Total amount recognized in other comprehensive income	**(203,233)**	(200,063)

14.4 Key actuarial assumptions

	2022	**2021**
Discount rate	4.60%	2.95%
Salary growth rate	2.00%	2.00%
Retirement age	60 years	60 years
Withdrawal rate	8% to 35%	6% to 28%

14.5 Sensitivity analysis for significant actuarial assumptions

2022	**Change in assumption**		**Impact on employee benefit obligations**	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	**0.50%**	**0.50%**	**(126,642)**	**132,661**
Salary growth rate	**0.50%**	**0.50%**	**135,445**	**(130,419)**

2021	**Change in assumption**		**Impact on employee benefit obligations**	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	0.50%	(188,488)	201,189
Salary growth rate	0.50%	0.50%	164,133	(155,559)

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

The methods and assumptions used in preparing the sensitivity analysis for 2022 and 2021 presented above are consistent.

(All amounts in Saudi Riyals unless otherwise stated)

14.6 Expected maturity analysis

The weighted average duration of the defined benefit obligation is 4.70 years (2021: 7.24 years). The expected maturity analysis of employee benefit obligations is as follows:

	Less than a year	1 - 2 years	2 - 5 years	5 - 10 years	Total
31 December 2022	**1,202,528**	**1,120,521**	**2,968,706**	**8,078,097**	**13,369,852**
31 December 2021	639,954	720,878	2,534,697	6,424,555	10,320,084

15 Related party transactions and balances

Related parties comprise the shareholders, directors, associated companies (representing entities which are directly or indirectly controlled by or under the significant influence of the Company's shareholder and Ultimate Parent Company), and key management personnel. Related parties also include business entities in which certain directors or senior management have an interest (other related parties).

15.1 Information about the related parties' balances as at 31 December and transactions in the ordinary course of business during the year were as follows:

Related party	**Relationship**
United Electronics Company ("UEC")	Ultimate controlling party
Procco Financial Services W.L.L - Fellow subsidiary of UIHC.("Procco")	Associated Company

Due to related parties

	2022	2021
UEC	**36,798,226**	38,505,520
Procco	**3,109,263**	2,540,719
	39,907,489	41,046,239

Movement in balances due to related parties are as follows:

	2022	2021
UEC		
As at 1 January	**38,505,520**	44,781,044
Customer purchases financed under Murabaha contracts	**373,754,380**	356,634,421
Payments to UEC	**(400,575,980)**	(417,837,424)
Collections made by UEC on behalf of the Company	**(157,117)**	(7,003,532)
Collections made by Company on behalf of UEC	**13,245,964**	51,858,957
Expenses incurred by the Company on behalf of UEC	-	(560,534)
Expenses incurred by UEC on behalf of the Company	**10,940,459**	9,484,212
Information Technology support charges	**1,085,000**	1,148,376
As at 31 December	**36,798,226**	38,505,520
Procco		
As at 1 January	**2,540,719**	43,200
Outsourced personnel expenses	**23,731,753**	13,766,312
Payments during the year	**(23,798,987)**	(12,362,256)
Expenses incurred by Procco on behalf of the Company	**635,778**	1,093,463
As at 31 December	**3,109,263**	2,540,719

(All amounts in Saudi Riyals unless otherwise stated)

Nature of transactions:

The transactions are based on terms agreed as per signed agreements between the Company and the related parties. A summary of nature of key transactions has been disclosed below:

- Customer purchases financed under Murabaha contracts are carried out at prevailing retail prices.
- Expenses incurred by UEC on behalf of the Company include office rent, utilities and other expenses.
- Collections made by the Company on behalf of UEC represents collections for UEC's legacy financing portfolio.

Related party balances as at 31 December 2022 and 2021 bear no financial charges.

15.2 Key management compensation

	2022	2021
Short-term employee benefits	**10,435,738**	8,998,880
Employee benefit obligations	**461,451**	426,166
Board of Directors' fees	**2,098,237**	1,989,000
	12,995,426	11,414,046

Key management personnel include Chief Executive Officer and other department heads.

As at 31 December 2022, advances to employees includes outstanding loans and advances to key management personnel amounting to Saudi Riyals 0.2 million (31 December 2021: Saudi Riyals 0.3 million). Also see Note 5.

16 Income from Islamic financing contracts

	2022	2021
Income from Tawarruq finance activities	**270,351,997**	180,166,934
Income from Murabaha finance activities	**146,123,295**	120,728,180
Income from Islamic credit card activities	**481,942**	-
	416,957,234	300,895,114

17 General and administrative expenses

	Note	2022	2021
Salaries and other benefits		**32,587,993**	26,581,479
Information technology support		**5,048,436**	5,712,033
Professional fees		**3,179,586**	3,610,748
Amortization	8	**2,384,194**	1,273,907
Rent		**1,007,020**	820,448
Depreciation	7	**967,837**	730,351
Others		**4,420,118**	2,032,674
		49,595,184	40,761,640

(All amounts in Saudi Riyals unless otherwise stated)

18 Selling and marketing expenses

	Note	2022	2021
Salaries and other benefits		**49,626,243**	46,172,812
Fee and subscription		**14,620,570**	12,833,554
Advertising		**9,867,330**	10,509,809
Collection charges		**8,515,071**	5,500,409
Rent		**3,185,138**	2,949,746
Depreciation	7	**645,231**	609,540
Others		**1,366,443**	2,098,788
		87,826,026	80,674,658

19 Basic and diluted earnings per share

	2022	2021
Profit for the year	**193,622,294**	128,774,428
Weighted average number of ordinary shares for basic and diluted earnings per share	**35,000,000**	35,000,000
Basic and diluted earnings per share	**5.53**	3.68

20 Financial risk management

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

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

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

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

20.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause a financial loss to the Company. The maximum exposure to credit risk is equal to the carrying amount of financial assets. As at 31 December 2022, the Company has maintained an ECL allowance of Saudi Riyals 46.8 million (31 December 2021: Saudi Riyals 33.4 million), which is considered adequate to provide for any losses which may be sustained on realization of financial assets.

(All amounts in Saudi Riyals unless otherwise stated)

20.1.1 Investment in Islamic financing contracts

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

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

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

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

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

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

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

	Performing (Stage 1)	**Under-performing (Stage 2)**	**Non-performing (Stage 3)**	**Total**
31 December 2022				
Internal credit risk ratings				
Low risk	**829,197,623**	**8,414,280**	**28,442,063**	**866,053,966**
Medium risk	**677,160,378**	**10,989,334**	**43,467,101**	**731,616,813**
High risk	**627,691,255**	**14,290,488**	**55,422,621**	**697,404,364**
	2,134,049,256	**33,694,102**	**127,331,785**	**2,295,075,143**

	Performing (Stage 1)	**Under-performing (Stage 2)**	**Non-performing (Stage 3)**	**Total**
31 December 2021				
Internal credit risk ratings				
Low risk	713,652,712	4,838,769	18,392,867	736,884,348
Medium risk	629,456,451	9,906,487	32,543,352	671,906,290
High risk	364,820,481	6,648,670	23,918,306	395,387,457
	1,707,929,644	21,393,926	74,854,525	1,804,178,095

(All amounts in Saudi Riyals unless otherwise stated)

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

	Tawarruq finance		Murabaha finance		Islamic Credit Card		Total	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Not past due	**1,067,030,105**	788,821,479	**368,275,414**	329,973,079	**5,650,607**	-	**1,440,956,126**	1,118,794,558
Past due 1-30 days	**35,759,594**	23,796,730	**11,019,678**	11,642,138	**189,370**	-	**46,968,642**	35,438,868
Past due 31-90 days	**19,074,046**	9,831,654	**4,496,158**	5,268,348	**496,110**	-	**24,066,314**	15,100,002
Past due 91-180 days	**34,893,005**	13,919,639	**9,421,114**	6,604,227	**495,541**	-	**44,809,660**	20,523,866
Past due 181-364 days	**24,579,623**	14,676,869	**8,350,489**	7,230,899	**-**	-	**32,930,112**	21,907,768
Over 365 days	**8,565,169**	5,530,211	**3,081,678**	2,128,538	**-**	-	**11,646,847**	7,658,749
	1,189,901,542	856,576,582	**404,644,531**	362,847,229	**6,831,628**	-	**1,601,377,701**	1,219,423,811
Less: Impairment for Islamic financing contracts	**(40,064,024)**	(23,932,886)	**(6,325,964)**	(9,430,785)	**(364,939)**	-	**(46,754,927)**	(33,363,671)
Net investment in Islamic financing contracts	**1,149,837,518**	832,643,696	**398,318,567**	353,416,444	**6,466,689**	-	**1,554,622,774**	1,186,060,140

20.1.2 Measurement of ECL

The Company applies the IFRS 9 general approach to measuring expected credit losses which uses a 12 month or lifetime expected loss allowance as applicable for investment in Islamic financing contracts. The Company's ECL model is sensitive to macroeconomic variables such as expected movements of oil prices and unemployment scenario weightings. Management evaluates changes in such macroeconomic factors on a periodic basis and has recognised the corresponding impact on the calculation of ECL as at 31 December 2022. The assessment of credit risk in the net investment in Islamic financing receivables requires further estimations of credit risk using ECL which is derived by Probability of default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD").

The Company measures an ECL at a contract level considering the EAD, PD, LGD and discount rates. PD estimates are estimates at a certain date, based on the term structures as provided below. For LGD estimates, the Company uses present value of recoveries for loss accounts adjusted by the forward-looking information and further adjusts it in accordance with the Basel guidelines for investment in tawarruq financing contracts. EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract i.e. contractual repayments. Such financing contracts are not collateralised. For discounting, the Company has used each contract's effective profit rate. The Company's management believes that adequate ECL allowance has been made, where required to address the credit risk. Also see Note 6.

a) Generating the term structure of PD

PD measures the estimated likelihood of default over a time period. PD has been calculated as a probability that an exposure will move to more than 90 days past due in the next 12 months or over the remaining lifetime of the obligation. "Through the cycle" default rates are calculated, which are later converted to Point-in-time PD using scalar factors by incorporating forward-looking information. For credit cards, the Company has used loss rates driven from historical data of other Islamic financing products, considering unavailability of extensive historical data.

b) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, management considers the 'days past due' analysis of each exposure and certain other qualitative factors such as monitoring the forward-looking information about financial difficulties faced by private sector employers of the customers and nationalization targets for specific industry groups etc. Management considers such analysis to be an effective and efficient measure of monitoring significant increase in credit risk, without undue cost and effort, as it enters into Islamic Financing Contracts with individual customers only.

c) Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on an extensive exercise carried out by the management, it had concluded that the crude oil price was the macroeconomic factor with the highest correlation to the historical collection and default trends. The Company measures the ECL as either a probability-weighted 12-month ECL (Stage 1) or a probability-weighted lifetime ECL (Stage 2 and 3). These probability weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weightings of 30%, 40% and 30% for "upturn", "baseline" and "downturn" scenarios respectively. Management updates the inputs with respect to macroeconomic factors to their ECL model on a quarterly basis based on the latest available information. As at 31 December 2022, the crude oil price incorporated in the upturn, baseline and downturn scenarios was United Standard Dollars ("USD") 97.5, USD 88.2 and USD 69.7 per barrel respectively, which contributed to determination of the overall scalar factor used. Furthermore, changes in unemployment statistics are also used in determination of the overall scalar factor used to incorporate the impact of forward-looking information to the ECL computation.

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

During the year ended 31 December 2022, there have been no significant changes to the underlying methodology used for determination of ECL.

Starting 2022, the Company, upon obtaining approval from the Risk and Credit Management Committee, has used present value of historic recoveries from loss accounts to arrive at the LGD for Murabaha portfolio. Previously, the LGD was adjusted with reference to the Basel guidelines. The LGD used for Tawarruq portfolio continues to be adjusted by the Basel guidelines considering that the Company has insufficient historical information as at the balance sheet date.

The change in LGD for Murabaha portfolio resulted in a decrease of Saudi Riyals 3.8 million, in the ECL allowance for the year ended 31 December 2022. Management believes that it is impracticable to assess the impact of this change in LGD for the future reporting periods.

e) Sensitivity analysis:

An increase or decrease of 10% in the oil prices scenario weightings with all other variables held constant will result in an increase/decrease of Saudi Riyals 4.1 million, in the ECL allowance (31 December 2021: Saudi Riyals 3.0 million).

An increase or decrease of 10% in the unemployment scenario weightings with all other variables held constant will result in an increase of Saudi Riyals 0.5 million, in the ECL allowance (31 December 2021: Saudi Riyals 0.3 million).

An increase or decrease of 10% in the loss rates (PDs and LGDs) assuming macro-economic factors remain the same, will result in an increase of Saudi Riyals 8.2 million or a decrease of Saudi Riyals 7.9 million respectively, in the ECL allowance (31 December 2021: an increase of Saudi Riyals 6.0 million or a decrease of Saudi Riyals 5.8 million, respectively in the ECL allowance).

20.1.3 Cash and cash equivalents and other receivables

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

Cash and cash equivalents are placed with banks having minimum credit ratings of A3 or better, and therefore are not subject to significant credit risk. The stated rating is as per the global bank ratings by Moody's Investors Service. Management does not expect any losses from non-performance by these counterparties. At 31 December 2022 and 2021, the ECL allowance on cash at bank was immaterial.

Other financial assets at amortised cost include other receivables. These instruments are considered to be low credit risk since they have a low risk of default and the issuers have a strong capacity to meet their contractual cash flow obligations in the near term. At 31 December 2022 and 2021, the ECL allowance on other financial assets was immaterial.

20.2 Profit rate risk

Profit rate risk is the uncertainty of future earnings and expenses resulting from fluctuations in profit rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to profit rate adjustment within a specified period. The most important source of such risk is the Company's Islamic financing activities and long-term borrowings. As at the statement of financial position date, the Company has profit bearing financial assets of Saudi Riyals 1,554.6 million (31 December 2021: Saudi Riyals 1,186.1 million). However, the profit rates have been agreed with the respective customers upon inception of the Islamic financing contracts. Further, the Company also has variable profit bearing financial liabilities of Saudi Riyals 837.5 million (31 December 2021: Saudi Riyals 675.7 million) and had the profit rate varied by 1% with all the other variables held constant, total comprehensive income /loss for the year would have been approximately Saudi Riyals 9.7 million (31 December 2021: Saudi Riyals 4.8 million) higher / lower, as a result of lower / higher finance cost on variable rate borrowings.

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

20.3 Liquidity risk

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

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

Total unused credit facilities available to the Company as at 31 December 2022 were approximately Saudi Riyals 618.1 million (2021: Saudi Riyals 594.3 million).

Cash flow forecasting is performed by the management which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits on any of its borrowing facilities allocated by the shareholder.

The tables below summarises the Company's financial assets and financial liabilities into the relevant maturity groupings based on the remaining contractual maturity period at the reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within one year equal their carrying balances, as the impact of discounting is not significant.

(All amounts in Saudi Riyals unless otherwise stated)

2022	**Nature**	**Up to 3 months**	**More than 3 months and up to one year**	**1 to 3 years**	**More than three years**	**Total**
Financial assets						
Gross investment in Islamic financing contracts	Profit bearing	**278,406,728**	**744,972,668**	**1,017,093,320**	**254,602,427**	**2,295,075,143**
Prepayments and other receivables	Non-profit bearing	**798,745**	**257,789**	**725,495**	**-**	**1,782,029**
Cash and cash equivalents	Non-profit bearing	**21,132,397**	**-**	**-**	**-**	**21,132,397**
		300,337,870	**745,230,457**	**1,017,818,815**	**254,602,427**	**2,317,989,569**
Financial liabilities						
Borrowings	Profit bearing	**171,401,480**	**261,205,392**	**345,175,852**	**96,774,965**	**874,557,689**
Trade and other payables	Non-profit bearing	**70,863,506**	**-**	**-**	**-**	**70,863,506**
		242,264,986	**261,205,392**	**345,175,852**	**96,774,965**	**945,421,195**
Net financial assets		**58,072,884**	**484,025,065**	**672,642,963**	**157,827,462**	**1,372,568,374**

2021	**Nature**	**Up to 3 months**	**More than 3 months and up to one year**	**1 to 3 years**	**More than three years**	**Total**
Financial assets						
Gross investment in Islamic financing contracts	Profit bearing	206,951,736	537,868,765	813,088,126	246,269,468	1,804,178,095
Prepayments and other receivables	Non-profit bearing	616,141	245,803	-	675,496	1,537,440
Cash and cash equivalents	Non-profit bearing	34,278,848	-	-	-	34,278,848
		241,846,725	538,114,568	813,088,126	246,944,964	1,839,994,383
Financial liabilities						
Borrowings	Profit bearing	39,757,435	131,576,327	357,275,703	177,520,747	706,130,212
Trade and other payables	Non-profit bearing	73,620,852	-		-	73,620,852
		113,378,287	131,576,327	357,275,703	177,520,747	779,751,064
Net financial assets		128,468,438	406,538,241	455,812,423	69,424,217	1,060,243,319

(All amounts in Saudi Riyals unless otherwise stated)

20.4 Net debt reconciliation

The net debt of the Company is as follows:

	2022	2021
Cash and cash equivalents	**21,132,397**	34,278,848
Borrowings	**(837,473,437)**	(675,743,904)
Total	**(816,341,040)**	(641,465,056)

The Company's net debt reconciliation is as follows:

2022	1 January	Cash inflows	Cash outflows	Others	31 December
Cash and cash equivalents	**34,278,848**	**935,346,499**	**(948,492,950)**	**-**	**21,132,397**
Borrowings	**(675,743,904)**	**646,000,000**	**(512,048,965)**	**(27,778,499)**	**(837,473,437)**
Net debt	**(641,465,056)**				**(816,341,040)**

2021	1 January	Cash inflows	Cash outflows	Others	31 December
Cash and cash equivalents	57,003,181	694,788,891	(717,513,224)	-	34,278,848
Borrowings	(340,681,964)	510,000,000	(186,154,670)	(11,216,610)	(675,743,904)
Net debt	(283,678,783)				(641,465,056)

20.5 Capital risk management

The Company's objectives when managing capital are to:

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as borrowings divided by total capital. Total capital is calculated as 'equity' as shown in the statement of financial position plus borrowings, which is analysed as follows:

	2022	2021
Total equity	**674,567,140**	480,741,613
Borrowings	**837,473,437**	675,743,904
Total	**1,512,040,577**	1,156,485,517
Gearing ratio	**55.4%**	58.4%

Further, the Company monitors aggregate amount of financing offered by the Company in line with the regulatory requirements of SAMA, which requires companies engaged in financing other than real estate, not to exceed aggregate financing to capital ratio of three times, which is calculated by dividing net investment in Islamic financing contracts by total equity.

	2022	2021
Net investment in Islamic financing contracts	**1,554,622,774**	1,186,060,140
Total equity	**674,567,140**	480,741,613
Aggregate financing to capital ratio	**2.3**	2.5

(All amounts in Saudi Riyals unless otherwise stated)

Under the terms of certain borrowing facilities, in addition to compliance with SAMA's requirements, the Company is required to maintain a minimum ratio of 1.2 to 1 of earnings before interest, tax, depreciation and amortization ("EBITDA") to Debt Service. As at 31 December 2022, the ratio of EBITDA to debt service was 1.6 (31 December 2021: 2.3), in compliance with the requirements of the minimum ratio as set out by the commercial banks.

21 Financial instruments

As at 31 December 2022 and 2021, all financial assets and financial liabilities of the Company are categorized as held at amortized cost. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values since the financial instruments are short term in nature, carry profit rates which are based on prevailing market profit rates and are expected to be realized at their current carrying values within twelve months from the date of the statement of financial position. The fair values of the non-current financial instruments are estimated to approximate their carrying values as these carry profit rates which are based on prevailing market profit rates.

The breakdown of these financial assets and liabilities is as follows:

	2022	2021
Financial assets at amortized cost		
Cash and cash equivalents	**21,132,397**	34,278,848
Investment in Islamic financing contracts	**1,554,622,774**	1,186,060,140
Other receivables	**1,782,029**	1,537,440
Total	**1,577,537,200**	1,221,876,428
Financial liabilities at amortized cost		
Borrowings	**837,473,437**	675,743,904
Trade and other payables	**70,863,506**	73,620,852
Total	**908,336,943**	749,364,756

At 31 December 2022, for the purpose of the financial instruments' disclosure, non-financial assets and non-financial liabilities amounting to Saudi Riyals 13.1 million and Saudi Riyals 2.1 million (31 December 2021: Saudi Riyals 13.3 million and Saudi Riyals 6.7 million), respectively, have been excluded from prepayments and other receivables and trade and other payables, respectively.

22 Date of authorization for issue

The accompanying financial statements were authorized for issue by the Company's Board of Directors on 7 February 2023.