

ALAWWAL INVEST COMPANY
(One Person Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2021
together with the
Independent auditor's report

ALAWWAL INVEST COMPANY
(ONE PERSON CLOSED JOINT STOCK COMPANY)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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KPMG Professional Services

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كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
مجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

Independent auditor's report

To the shareholder of Alawwal Invest Company

Opinion

We have audited the financial statements of Alawwal Invest Company ("the Company"), which comprise the statement of financial position as at 31 December 2021, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for opinion

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

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 IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA, 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 the 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, the Board of Directors, are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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



Independent auditor's report

To the shareholder of Alawwal Invest Company (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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, then 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 of the Company.

KPMG Professional Services



Hani Hamzah A. Bedairi
License no: 460



Riyadh: 28 Sha'ban 1443H
Corresponding to: 31 March 2022

ALAWWAL INVEST COMPANY
(ONE PERSON CLOSED JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2021
(Amount in SAR '000s')

	<i>Note</i>	31 December 2021	31 December 2020
<u>Assets</u>			
Cash and cash equivalents	4	59,269	5,730
Time deposits	5	410,000	435,593
Investments held at fair value through profit or loss	6	124,259	123,041
Margin finance receivables	7	80,973	164,462
Right of use asset	8	2,638	3,958
Other assets	9	2,527	1,426
Total assets		679,666	734,210
<u>Liabilities</u>			
Short-term borrowings	11	80,813	164,417
Due to related party	12	75,216	17,371
Accrued expenses and other liabilities	13	35,492	7,769
Zakat and income tax payable	15	9,878	9,686
Lease liability	10	4,108	4,031
Employees' end of service benefits	14	11,605	12,968
Total liabilities		217,112	216,242
<u>Equity</u>			
Share capital	16	400,000	400,000
Statutory reserve	16	23,040	23,040
Retained earnings		37,357	93,630
Other reserves		2,157	1,298
Total equity		462,554	517,968
Total liabilities and equity		679,666	734,210

The accompanying notes 1 to 28 form an integral part of these financial statements.



Head of Finance



Chief Executive Officer

ALAWWAL INVEST COMPANY
(ONE PERSON CLOSED JOINT STOCK COMPANY)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021
(Amount in SAR 000s')

		For the year ended 31 December	
	<i>Note</i>	2021	2020
Revenue			
Asset management fee	19	9,040	8,709
Investment banking income	20	-	306
Brokerage fee income		17,070	16,965
Special commission income	21	7,178	11,848
Fee for custody and other services		768	885
Unrealized gain on investments held at fair value through profit or loss		1,218	1,453
Total revenue		35,274	40,166
Expenses			
Salaries and employee related expenses		27,727	22,271
Premises related expenses		759	873
Special commission expense on short term borrowings		1,214	1,712
General and administrative expenses	22	51,041	11,063
Depreciation	8	1,319	1,319
Finance charge	10	77	101
Total operating expenses		82,137	37,339
(Loss) / income before zakat and income tax		(46,863)	2,827
Zakat and income tax for the year	15	9,410	18,117
Net loss for the year		(56,273)	(15,290)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Actuarial gain / (loss) on employees' end of service benefits		859	(7)
Total other comprehensive income / (loss) for the year		859	(7)
Total comprehensive loss for the year		(55,414)	(15,297)

The accompanying notes 1 to 28 form an integral part of these financial statements.



 Head of Finance



 Chief Executive Officer

ALAWWAL INVEST COMPANY
(ONE PERSON CLOSED JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021
(Amount in SAR '000s')

	Share capital	Statutory reserve	Other reserves	Retained earnings	Total
Balance as at 1 January 2021	400,000	23,040	1,298	93,630	517,968
Net loss for the year	-	-	-	(56,273)	(56,273)
Other comprehensive income	-	-	859	-	859
Total comprehensive loss	-	-	859	(56,273)	(55,414)
Balance as at 31 December 2021	400,000	23,040	2,157	37,357	462,554
Balance as at 1 January 2020	400,000	23,040	1,305	108,920	533,265
Net loss for the year	-	-	-	(15,290)	(15,290)
Other comprehensive loss	-	-	(7)	-	(7)
Total comprehensive loss	-	-	(7)	(15,290)	(15,297)
Balance as at 31 December 2020	400,000	23,040	1,298	93,630	517,968

The accompanying notes 1 to 28 form an integral part of these financial statements.



 Head of Finance


 Chief Executive Officer

ALAWWAL INVEST COMPANY
(ONE PERSON CLOSED JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021
(Amount in SAR '000s')

	<i>Note</i>	For the year ended	
		31 December	
		2021	2020
Cash flows from operating activities			
Net (loss) / income before zakat and income tax for the year		(46,863)	2,827
<i>Adjustments for:</i>			
Employees' end-of-service benefits	<i>14.2</i>	1,574	1,409
Unrealized gain on investments held at fair value through profit or loss		(1,218)	(1,453)
Depreciation	<i>8</i>	1,319	1,319
Finance charge	<i>10</i>	77	101
Changes in operating assets and liabilities:			
Decrease / (increase) in margin finance receivables		83,489	(20,835)
(Increase) in other assets		(1,099)	(810)
Increase in due to related party		59,191	278
Increase in accrued expenses and other liabilities		27,723	2,810
Cash generated from / (used in) operations		124,193	(14,354)
End-of-service benefits paid	<i>14</i>	(3,424)	354
Zakat paid	<i>15</i>	(9,118)	(15,539)
Income tax paid	<i>15</i>	(101)	(185)
Net cash generated from / (used in) operating activities		111,550	(29,724)
Cash flows from investing activities			
Time deposits matured		1,170,593	955,579
Time deposits reinvested		(1,145,000)	(940,628)
Net cash generated from investing activities		25,593	14,951
Cash flows from financing activities			
Payment for lease liability		-	(2,791)
Net (repayment of) / proceeds from short-term borrowings	<i>11.1</i>	(83,604)	20,790
Net cash (used in) / generated from financing activities		(83,604)	17,999
Net increase in cash and cash equivalents		53,539	3,226
Cash and cash equivalents at beginning of the year		5,730	2,504
Cash and cash equivalents at the end of the year	<i>4</i>	59,269	5,730
Supplemental information			
Special commission received during the year		7,507	13,356
Special commission paid during the year	<i>11.1</i>	1,214	2,014

The accompanying notes 1 to 28 form an integral part of these financial statements.


 Head of Finance


 Chief Executive Officer

ALAWWAL INVEST COMPANY
(ONE PERSON CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021
(Amount in SAR '000s')

1. ORGANIZATION AND ACTIVITIES

Alawwal Invest Company (“the Company”) is a One Person Closed Joint Stock Company, a 100% owned subsidiary of The Saudi British Bank (“SABB”, “the Parent”), operating in the Kingdom of Saudi Arabia under Commercial Registration No. 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to 9 January 2008).

The principal activities of the Company are to provide a full range of financial services, which include brokerage services, asset management services and margin lending. The Company also provides arranging, advisory and custodial services to its clients pursuant to the Capital Market Authority (“CMA”) resolution number 1-39-2007 dated 8 Rajab1428 corresponding to 22 July 2007.

The address of the Company’s head office is as follows:

Alawwal Invest Company
Head Office
P.O. Box 1467
Riyadh 11431,
Kingdom of Saudi Arabia

On 18 May 2021, Alawwal Invest entered into a business transfer agreement related to the purchase of certain business lines (“the Transaction”) from HSBC Saudi Arabia (in which SABB owns 49% of the capital). According to the agreement, Alawwal Invest will acquire the following business lines:

- 1- The assets management business
- 2- The retail margin lending business
- 3- The retail brokerage business

The estimated value of the Transaction is SAR 766,491,000. The value of the Transaction is subject to adjustments as provided in the Agreement. The net book value of the transferring business is SAR 646,491,000 as of 31 December 2020. The transaction is expected to complete during the financial year 2022.

In extraordinary general assembly meeting (EGM) held on 10 March 2022, SABB approved the recommendation from Alawwal Invest’s Board of Directors to increase the capital of the Company from SAR 400,000,000 to SAR 840,000,000 by way of capital injecting. This is subject to regulatory approvals.

2. BASIS OF PREPARATION

2.1. Statement of compliance

These financial statements for the year ended 31 December 2021 have been prepared in accordance with the International Financial Reporting Standards (“IFRS”), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Chartered and Professional Accountants (“SOCPA”), and in compliance with the applicable requirements of the Regulation for Companies in the Kingdom of Saudi Arabia and the Company’s By-laws.

ALAWWAL INVEST COMPANY
(ONE PERSON CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

(Amount in SAR 000s')

2. BASIS OF PREPARATION (CONTINUED)

2.2. Basis of measurement

These financial statements have been prepared on a going concern basis under historical cost convention except for the following items:

- Financial assets classified as “at fair value through profit or loss” are measured at fair value; and
- Defined benefit obligations are measured at present value of future obligations using the Projected Unit Credit Method.

The line items on the statement of financial position are presented in the order of liquidity.

2.3. Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (“SAR”) which is the functional and presentational currency of the Company. All amounts have been rounded to the nearest thousands.

2.4. Use of judgements, estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant area where management has used estimates, assumptions or exercised judgements is as follows:

2.4.1 Employees’ end of service benefit

The Company operates a defined benefit plan under the Saudi Arabian Labor Law based on employees' accumulated periods of service at the date of the statement of financial position. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method as per IAS 19 using actuarial assumptions based on market expectations at the date of statement of financial position.

2.5. New standards, amendments and interpretations

2.5.1 *New standards, amendments and interpretations adopted in preparation of these financial statements*

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after 1 January 2021. The management has assessed that the amendments have no significant impact on the Company's financial statements.

- Interest rate benchmark reform - phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- COVID 19 - related rent concessions (amendments to IFRS 16).

ALAWWAL INVEST COMPANY
(ONE PERSON CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

(Amount in SAR 000s')

2. BASIS OF PREPARATION (CONTINUED)

2.5.2 New standards and amendments issued but not yet effective and not early adopted

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Company's accounting year beginning on or after 1 January 2022 are listed below. The Company has opted not to early adopt these pronouncements and it is not expected that they will have a significant impact on the financial statements of the Company upon adoption.

- IFRS 17 - Insurance contracts, applicable for the period beginning on or after January 1, 2023;
- Amendments to IAS I, 'Presentation of financial statements', on classification of liabilities;
- Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors, definition of accounting estimates;
- Amendments to IAS 1, Presentation of financial statements and IFRS practice statement 2 making materiality judgements, disclosure initiative: accounting policies;
- Annual Improvements to IFRS Standards 2018-2020 (amendment to IFRS 1, IFRS 9 and IAS 41);
- Reference to conceptual framework (amendments to IFRS 3);
- Property, plant and equipment: proceeds before intended use (amendments to IAS 16);
- Onerous contracts - cost of fulfilling a contract (amendments to IAS 37); and
- Amendment to IAS 12, Deferred tax related to assets and liabilities arising from a single transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have consistently been applied to all periods presented.

(a) *Financial instruments*

Classification and measurement of financial assets

On initial recognition, the Company classifies its financial assets in the following measurement categories:

- Amortized cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

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. Transaction costs of financial assets carried at fair value through profit or loss are expensed in statement of income.

Financial asset at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

ALAWWAL INVEST COMPANY
(ONE PERSON CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

(Amount in SAR 000s')

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and commission on the principal amount outstanding.

Business model assessment

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

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

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

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

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

Financial asset at fair value through other comprehensive income ("FVOCI")

Debt instruments:

A financial asset is measured at fair value through FVOCI only if it meets both of the following conditions and is not designated as at FVTPL.

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principle amount outstanding.

Equity instruments:

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Financial asset at fair value through profit or loss ("FVTPL")

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

ALAWWAL INVEST COMPANY
(ONE PERSON CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

(Amount in SAR 000s')

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expected credit loss on financial assets

The Company recognizes loss allowances for ECL on the overdraft loans extended to its customers under margin lending facilities.

Financial liabilities

All financial liabilities are initially recognized at fair value less transaction costs except for financial liabilities measured at FVTPL where transactions cost, if any, are not deducted from the fair value measurement at initial recognition and are included in the statement of income.

Subsequently, all special commission bearing financial liabilities other than those held at FVTPL are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement.

De-recognition of financial instruments

A financial asset is derecognized, when the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition. In instances where the Company is assessed to have transferred a financial asset, the asset is derecognized if the Company has transferred substantially all the risks and rewards of ownership.

Where the Company has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Company has not retained control of the financial asset. The Company recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is an enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(b) *Revenue from contracts with customers*

The Company recognises revenue as and when the performance obligations are met as per IFRS 15 (using the five-step model). The Company has the following streams of revenue:

Asset management fees

Asset management fees are recognised based on a fixed percentage of net assets under management (“asset-based”), or a percentage of returns from net assets (“returns-based”) subject to applicable terms and conditions and service contracts with customers and funds. The Company attributes the revenue from management fees to the services provided during the year, because the fee relates specifically to the Company’s efforts to transfer the services for that period. The asset management fees is not subject to any clawbacks.

Investment banking income

Advisory and investment banking services revenue is recognised based on services rendered under the applicable service contracts and as the performance obligations are met.

Brokerage income

Brokerage income is recognised when the related transactions are executed on behalf of the customers at the price agreed in the contract with the customers, net of discounts and rebates. The performance obligation of the Company is satisfied when the Company carries out the transaction on behalf of the customers, which triggers immediate recognition of the revenue, as the Company will have no further commitments.

ALAWWAL INVEST COMPANY
(ONE PERSON CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

(Amount in SAR 000s')

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net gains on investments measured at FVTPL

Net gains on investments measured at FVTPL includes all realised and unrealised fair value changes and foreign exchange differences (if any) but excludes special commission and dividend income.

Special commission income

Income from margin finance receivables and time deposits is recognized on an accrual basis based on effective commission rate method.

(c) Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank balances. It also includes bank overdrafts which form an integral part of the Company's cash management and are likely to fluctuate from overdrawn to positive balances. Bank overdrafts, where there is no right of set-off, are shown as short-term borrowings within liabilities.

(d) Leases

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

Right of Use Assets ("ROU")

The Company applies cost model, and measure right of use asset at cost;

- a) less any accumulated depreciation and any accumulated impairment losses; and
- b) adjusted for any re-measurement of the lease liability for lease modifications

Generally, RoU asset would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the RoU asset value.

Lease Liability

On initial recognition, the lease liability is the present value of the lease payments that are not paid at the commencement date discounted using the Company's incremental borrowing rate.

After the commencement date, Company measures the lease liability at amortized cost using the effective interest method by:

1. Increasing the carrying amount to reflect interest on the lease liability.
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

(e) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost in the statement of profit or loss.

(f) Employees' end of service benefits liability

The liability for employees' end of service benefits, being a defined benefit plan, is determined using the projected unit credit method with actuarial valuation being conducted at end of annual reporting period. The related liability recognised in the statement of financial position is the present value of the end of service benefits obligation at the end of the reporting period.

ALAWWAL INVEST COMPANY
(ONE PERSON CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

(Amount in SAR 000s')

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current service cost and the commission expense arising on the end of service benefit liability are recorded in the statement of income. Re-measurement of defined benefit liability, which comprise of actuarial gains and losses, are recognised immediately in the other comprehensive income.

(g) *Short-term employee benefits*

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the year the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

(h) *Foreign currencies transactions and balances*

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at the dates of the transaction. Assets and liabilities denominated in foreign currencies at the year-end are translated into Saudi Arabian Riyals at the exchange rates prevailing at the statement of financial position date. Realized and unrealized gains or losses on exchange are credited or charged to the statement of income.

(i) *Assets under management*

The Company offers assets management services to its customers, which include management of certain mutual funds and discretionary portfolios management. Such assets are not treated as assets of the Company and accordingly are not included in the financial statements.

(j) *Margin lending*

Margin lending receivables are initially recognized when the underlying funds are disbursed to customers. They are derecognized when either customers repay their obligations, or the balance is written off, or substantially all the risks and rewards of ownership are transferred to another party.

(k) *Accrued expenses and other liabilities*

Accrued expenses and other liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Company.

(l) *Clients' cash accounts*

The Company holds cash in clients' cash accounts with SABB to be used for investments on their behalf. Such balances are not included in the financial statements.

(m) *Expenses*

Salaries and other employee related expenses are those which specifically relate to employee costs. All other expenses other than employees' costs, premises related expenses, special commission expense on short term borrowings, depreciation, financial charges and for ECL are classified as general and administrative expenses.

(n) *Zakat and taxation*

Current income tax and zakat

The Company is subject to zakat and income tax in accordance with the regulations of the Zakat, Tax and Custom Authority ("ZATCA"). Zakat and income tax are charged to the statement of profit or loss. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized and recognized in profit and loss.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Contingent assets and liabilities

A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of obligation cannot be measured with reasonable reliability. Contingent assets are not recognized but are disclosed where an inflow of economic benefits is probable.

(p) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are reviewed regularly by the Company's management and those charged with governance, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available. Segment results that are reported to the Company's management and those charged with governance include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

4. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash in hand	1	1
Cash at bank - current account	59,268	5,729
Total	59,269	5,730

5. TIME DEPOSITS

Time deposits are placed with The Saudi British Bank ("SABB") and other local banks and carry profit at commercial rates, with maturity up to March 2022 (2020: October 2021).

6. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

The Company has investment in the following mutual funds. These funds are managed by the Company.

Mutual funds managed by the Company	31 December 2021		31 December 2020	
	Cost	Fair value	Cost	Fair value
Al-Yusr Saudi Riyal Morabaha Fund	16,831	17,620	40,756	42,584
Saudi Riyal Money Market Fund	28,657	30,007	28,657	29,938
Al Yusr Morabaha & Sukuk Fund	72,771	76,632	44,770	50,519
Total	118,259	124,259	117,183	123,041

6.1 During the year units amounting to SAR 25 million in Al Yusr Saudi Riyal Morabaha Fund were sold and the amount was invested in AlYusr Morabaha & Sukuk Fund.

7. MARGIN FINANCE RECEIVABLES

The Company extends margin lending facilities on a selective basis to its customers for the purpose of investing in the Saudi equity market. These facilities are extended up to a maximum period of one year and bear special commission rate based on base rate (3M SAIBOR) plus a specific percentage as per policy according to the amount of limit obtained. The facilities are collateralised by underlying equities and cash held in the customers' investment accounts. As at 31 December 2021, the impact of expected credit loss (ECL) is not material against margin receivables.

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8. RIGHT OF USE ASSET

Right of use asset relates to leased property (office building – 10 years' contract ending in 2023).

	<u>2021</u>	<u>2020</u>
Balance at 1 January	3,958	5,277
Depreciation charge for the year	(1,320)	(1,319)
Balance at 31 December	<u>2,638</u>	<u>3,958</u>

9. OTHER ASSETS

	<u>2021</u>	<u>2020</u>
Accrued fees	-	313
Prepaid expenses	361	345
Others	2,166	768
Balance at 31 December	<u>2,527</u>	<u>1,426</u>

9.1 Others include receivables from custodian SAR 1.0 million and mutual fund fees receivable of SAR 1.04 million and others of SAR 0.13 million.

10. LEASE LIABILITY

	<u>2021</u>	<u>2020</u>
Balance at 1 January	4,031	6,721
Interest expense for the year	77	101
Payment for lease liability	-	(2,791)
Balance at 31 December	<u>4,108</u>	<u>4,031</u>

2021

	<u>Gross future minimum lease payments</u>	<u>Interest</u>	<u>Present value of minimum lease payments</u>
Less than one year	2,790	51	2,739
Between one to five years	1,395	26	1,369
	<u>4,185</u>	<u>77</u>	<u>4,108</u>

2020

	<u>Gross future minimum lease payments</u>	<u>Interest</u>	<u>Present value of minimum lease payments</u>
Less than one year	1,395	77	1,318
Between one to five years	2,790	77	2,713
	<u>4,185</u>	<u>154</u>	<u>4,031</u>

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11. SHORT-TERM BORROWINGS

The Company has an overdraft credit facility of SAR 600 million from SABB to finance margin lending facilities. As at 31 December 2021, the amount of this facility utilized by the Company amounted to SAR 80.8 million (2020: 164.4 million). It carries special commission rate of three months SAIBOR.

- 11.1 Reconciliation of movements of short-term borrowings to cash flows arising from financing activities:

	2021	2020
Balance at 1 January	164,417	143,627
Accrued special commission expense for the year	1,214	1,712
Net (repayments) / proceeds from short-term borrowings	(84,818)	19,078
Balance at 31 December	80,813	164,417

12. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company transacts with related parties on mutually agreed terms approved by the Company's Board of Directors. Related parties include The Saudi British Bank ("the Parent") and its affiliated companies, funds managed by the Company, the Board of Directors, its committees and key management personnel. The significant transactions with related parties and the related amounts other than those disclosed elsewhere in these financial statements are as follows:

	Relationship	2021	2020
Advisory and arranging fee	Affiliate	-	200
Fee for custody and other services	Parent	688	675
Special commission income	Parent	2,927	6,468
Asset management fee	*Mutual funds managed by the Company	8,908	8,277
Special commission expense	Parent	1,214	1,712
Operating expenses charged by SABB under Service Level Agreement (Note 12.1)	Parent	9,680	7,026

**Mutual funds comprise of following funds that are managed by the Company:*

Al Yusr Morabaha & Sukuk Fund
Al Yusr Saudi Riyal Morabaha Fund
Saudi Riyal Money Market Fund
Al Yusr Saudi Equity Fund
Saudi Equity Fund
Saudi Financial Institutions Equity Fund
GCC Equity Fund

- 12.1 SABB provides certain services to the Company as per Service Level Agreement (the "Agreement") signed between the Company and the Bank. These services include support for IT, finance, human resource, legal and other administrative functions. SABB collects and makes payments for and on behalf of the Company and maintains bank accounts of Company's brokerage customers.

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12. RELATED PARTY TRANSACTIONS (CONTINUED)

In addition to Note 4, 5, 6, 10 and 11, and amounts disclosed elsewhere in these financial statements, the following balances are also outstanding in respect of related parties:

	<u>Relationship</u>	<u>31-Dec-2021</u>	<u>31-Dec-2020</u>
Due to related party	Parent	75,216	17,371
Short term borrowings	Parent	80,813	164,417
Management fees receivable	Mutual Funds	1,037	-

Remuneration and compensation of Board of Directors, committees and key management personnel is as follows:

	<u>2021</u>	<u>2020</u>
Board of directors and committee members	1,250	500
Key management personnel	9,096	6,998

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>31 December</u>	<u>31 December</u>
	<u>2021</u>	<u>2020</u>
Accrued employees benefits	4,268	3,369
Integration cost (note 13.1)	22,282	-
Other expenses (note 13.2)	8,942	4,400
Total	35,492	7,769

13.1 Integration costs relates to consulting services comprising of legal, finance, project management and IT support in relation to the Transaction as explained in note 1 above.

13.2 Other expenses include professional and consultancy charges, communication expenses and other general expenses.

14. EMPLOYEES' END OF SERVICE BENEFITS

The movement in employees' end of service benefits for the year ended 31 December is as follows:

	<u>31 December</u>	<u>31 December</u>
	<u>2021</u>	<u>2020</u>
Balance at beginning of the year	12,968	11,198
EOSB cost charged to profit or loss (note 14.2)	1,574	1,409
Re-measurement (gain) / loss recognized in other comprehensive income	(859)	7
Transfer liability (note 14.1)	1,346	386
Benefits paid during the year	(3,424)	(32)
Balance at the end of the year	11,605	12,968

14.1 This represents the employee benefits in relation to the employees that have been transferred during the year from the parent company to Alawwal Invest.

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14. EMPLOYEES' END OF SERVICE BENEFITS (CONTINUED)

14.2 The breakdown of employees' end of service benefits ("EOSB") costs for the year ended 31 December is as follows:

	<u>2021</u>	<u>2020</u>
Current service cost	1,346	1,052
Interest cost	228	357
EOSB costs charged to profit or loss	<u>1,574</u>	<u>1,409</u>

14.3 Principal actuarial assumptions

Particulars	<u>2021</u>	<u>2020</u>
Discount rate	2.65% pa	2.05% pa
Expected rate of salary increase - <i>short term</i> :	4.00% pa	2.50% pa
Expected rate of salary increase - <i>long term</i> :	2.70% pa	2.05% pa

Sensitivity of actuarial assumption

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December to the discount rate and salary escalation rate.

Base scenario	Impact on defined benefit obligation - increase / (decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
2021			
Discount rate	1%	(826)	936
Expected rate of salary increase	1%	952	(856)
2020			
Discount rate	1%	(878)	999
Expected rate of salary increase	1%	1,020	(914)

The above sensitivity analysis is based on a change in an assumption holding all other assumptions constant. The weighted average duration of the defined benefit obligation is 7.59 years (2020: 7.5 years).

Maturity profile

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

	<u>2021</u>	<u>2020</u>
Distribution of timing of benefit payments		
Year 1	1,305	1,584
Year 2	725	1,062
Year 3	709	818
Year 4	780	783
Year 5	900	756
Year 6 to Year 10	3,685	4,570
Year 11 and above	5,059	5,156

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15. ZAKAT AND INCOME TAX

	For year ended 31 December	
	2021	2020
Zakat for the year	9,410	17,954
Income tax for the year	-	163
Total	9,410	18,117

15.1 The principal elements of the Company's zakat base are as follows:

	2021	2020
Share capital	276,000	260,028
Adjusted net income	-	1,486
Provisions and reserves	89,056	93,805
Zakat base	365,056	355,319
Zakat charge for the current year	9,410	9,159
Zakat charged for prior years	-	8,795
Total charge	9,410	17,954

15.2 Income tax for the year is as follows:

	2021	2020
Non-Saudi shareholders share of adjusted net income	-	815
Income tax for the year	-	163

15.3 Movement in zakat and income tax provision

	2021	2021
Balance as at the beginning of the year	9,686	7,293
Zakat provision during the year (<i>Note 15.1</i>)	9,410	17,954
Income tax provision during the year (<i>Note 15.2</i>)	-	163
Payments / adjustment during the year for prior years	(9,218)	(15,724)
Balance at the end of the year	9,878	9,686

15.4 Status of assessment

The Company has filed all zakat and tax returns up to the year ended 31 December 2020. The tax/zakat assessment of the Company is finalized up to the year ended 31 December 2018.

The Company's zakat and tax return for the year ended 31 December 2021 is due to be filed on or before 30 April 2022.

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16. SHARE CAPITAL AND RESERVES

Share capital

The authorized, issued and fully paid up share capital of the Company, amounted to SAR 400 million comprising of 40,000,000 shares of SAR 10 each, which are fully paid and owned by SABB.

Statutory reserve

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

17. CLIENTS' CASH ACCOUNTS

As at 31 December 2021, the Company holds clients' cash accounts amounting to SAR 1.06 billion (2020: SAR 0.93 billion), to be used for investments on the clients' behalf. Consistent with its accounting policy, such balances are not included in the Company's financial statements as the Company holds these in fiduciary capacity.

18. ASSETS UNDER MANAGEMENT

These represent the mutual funds', and discretionary portfolios' assets related to the funds of the investors managed by the Company, which amount to SAR 1.84 billion as at 31 December 2021 (2020: SAR 1.35 billion). Consistent with its accounting policy, such balances are not included in the Company's financial statements as these are held by the Company in fiduciary capacity.

19. ASSET MANAGEMENT FEE

	For year ended 31 December	
	2021	2020
Management fee from Mutual funds (note 12)	8,908	8,277
Management fee from Discretionary portfolio management	132	432
Total	9,040	8,709

20. INVESTMENT BANKING INCOME

	For year ended 31 December	
	2021	2020
Mergers and acquisitions	-	200
Private placement	-	-
Others	-	106
Total	-	306

21. SPECIAL COMMISSION INCOME

	For year ended 31 December	
	2021	2020
Margin lending income	4,124	5,380
Time deposits	3,054	6,468
Total	7,178	11,848

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22. GENERAL AND ADMINISTRATIVE EXPENSES

	For year ended 31 December	
	2021	2020
Expenses under Service Level agreement (note 12.1)	9,680	7,026
Communication expenses	1,240	1,168
Integration expenses (note 13.1)	33,593	1,058
Stationery and printing	100	97
Traveling	36	17
Other expenses (note 22.1)	6,392	1,697
Total	51,041	11,063

22.1 Other expenses include Audit Fees, Directors fees and others.

23. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Company is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When measuring the fair value, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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23. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table shows the carrying amounts and fair values of assets and liabilities measured at fair value, including their levels in the fair value hierarchy. All fair value measurements disclosed are recurring fair value measurements.

31 December 2021					
<u>Financial assets measured at fair value</u>	<u>Carrying value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held at FVTPL	124,259	-	124,259	-	124,259
31 December 2020					
<u>Financial assets measured at fair value</u>	<u>Carrying value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held at FVTPL	123,041	-	123,041	-	123,041

The fair value of investments classified within Level 2 is based on the net asset value ("NAV") quoted on the Saudi Stock Exchange as at 31 December 2021.

There were no transfers between fair value measurement categories.

The above table does not include fair value information for financial assets and financial liabilities not measured at fair value since they are not significantly different from the carrying values included in the financial statements. The fair values of commission bearing deposits, margin finance receivables, cash and bank balances and accounts receivable and other assets which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of financial instrument.

24. OPERATING SEGMENTS

The Company operates solely in the Kingdom of Saudi Arabia. For management purposes, the Company is organized into business units based on services provided and has the following reportable segments:

Investment banking

Investment banking services include corporate finance advisory, private placements, public offerings of equity and debt securities, trade sales, mergers, acquisition, divestitures, spin-offs, syndications and structured products.

Brokerage

Brokerage services include domestic and international equity brokerage services acting as broker to trade in securities in local and international exchanges and providing custody and clearing services to clients. It also includes fully secured overdraft facility to customers to trade in local equities as margin lending facilities.

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24. OPERATING SEGMENTS (CONTINUED)

Asset management

Asset management services include management of assets (i.e. mutual funds and discretionary portfolio management) on behalf of customers.

Corporate

The Company's Corporate function manages corporate development and controls all treasury and proprietary investments related functions. This function also looks after strategy and business development, legal and compliance, finance, operations, human resources and client relation management.

The Company's total operating income and expenses, and the results for the year then ended, by each operating segment, are as follows:

	2021				
	Investment	Asset			Total
	Banking	Brokerage	Management	Corporate	Total
Revenue	-	21,194	9,040	5,040	35,274
Expense	-	7,895	3,877	70,365	82,137
	2020				
	Investment	Asset			Total
	Banking	Brokerage	Management	Corporate	Total
Revenue	306	23,230	8,709	7,921	40,166
Expense	2,734	8,020	3,870	22,715	37,339

25. RISK MANAGEMENT

The Board of Directors of the Company are responsible for the overall risk management framework and for approving the risk management strategies and principles. The Company manages its business risks in the creation, optimization and protection of enterprise value as well as creation of value for its investors. Therefore, Risk management is an integral part of corporate strategy to ensure effectiveness and value addition. Risk management goal is to understand and manage the risks rather than to avoid it.

The Company has designed its risk management framework to identify measure, monitor, mitigate, insure and reassess its key risks based upon changes in internal and external environment.

The framework supports to achieve its strategic objective to optimize the risk return trade-off by either maximizing return for a given level of risk or reduce the risk for a given level of return. The Risk Management division, which is a vital link between business lines and management, develops and communicates risk appetite to risk owners and continuously monitors it to ensure risk exposures are within management's acceptable level.

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25. RISK MANAGEMENT (CONTINUED)

25.1 Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge its contractual obligation and cause the other party to incur a financial loss. The Company has established procedures to manage credit risk including evaluation of customers' credit worthiness, formal credit approvals and obtaining collateral.

With respect to credit risk arising from other financial assets of the Company, including cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The table below shows the maximum exposure to credit risk for the components of the financial statements.

	Credit exposure as at 31 December 2021	Credit exposure as at 31 December 2020
Cash and cash equivalent	59,269	5,729
Time deposits	410,000	435,593
Margin finance receivables	80,973	164,462
Other assets	2,527	313
	552,769	606,097

Cash at bank and time deposits

The Company kept its surplus funds and placements with SABB and AlRajhi bank having stable credit rating. SABB's long term debt and short term debts are rated as BBB+ and F2 as per Fitch's and A1 and P-1 as per Moody's ratings. AlRajhi bank's long term debt and short debts are rated as A- and F1 as per Fitch's and A1 and P-1 as per Moody's ratings.

Margin finance receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristic of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and the country in which customers operate.

As on 31 December 2021, the margin finance receivables are neither past due nor credit impaired. The facilities are collateralized by underlying equities and cash held in the customers' investment accounts, that amounted to SAR 510.391 million.

25.2 Market risk

Currency risk

Currency risk is the risk that the value of a financial investment may fluctuate due to change in foreign exchange rates. Management closely monitors the exchange rate fluctuations and believes that there is minimal risk of losses due to exchange rate fluctuations as the Company primarily deals with Saudi Arabian Riyals.

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25. RISK MANAGEMENT (CONTINUED)

Commission rate risk

Special commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments. The Company's commission rate risk arises mainly from margin lending receivables, short-term borrowings and time deposits with SABB. The Company has limited commission rate risk due to the short-term maturity of these financial instruments.

Commission rate risk	<u>Within 3 months</u>	<u>3-12 months</u>	<u>Over 1 years</u>	<u>Non commission bearing</u>	<u>Total</u>
31 December 2021					
Total financial assets					
Cash at bank	-	-	-	59,269	59,269
Time deposits	410,000	-	-	-	410,000
Investment held at fair value through profit or loss	-	-	-	124,259	124,259
Margin finance receivables	80,973	-	-	-	80,973
Other assets	-	-	-	2,527	2,527
Total financial assets	490,973	-	-	186,055	677,028
Accrued expenses and other liabilities	-	-	-	35,492	35,492
Short-term borrowing	80,813	-	-	-	80,813
Total financial liabilities	80,813	-	-	35,492	116,305
Cumulative commission rate sensitivity gap	410,160	410,160	410,160	560,723	

Commission rate risk	<u>Within 3 months</u>	<u>3-12 months</u>	<u>Over 1 years</u>	<u>Non commission bearing</u>	<u>Total</u>
31 December 2020					
Total financial assets					
Cash at bank	-	-	-	5,729	5,729
Time deposits	25,000	410,593	-	-	435,593
Investment held at fair value through profit or loss	-	-	-	123,041	123,041
Margin finance receivables	164,462	-	-	-	164,462
Accounts receivable	-	-	-	313	313
Total financial assets	189,462	410,593	-	129,083	729,138
Accrued expenses and other liabilities	-	-	-	7,769	7,769
Short-term borrowing	164,417	-	-	-	164,417
Total financial liabilities	164,417	-	-	7,769	172,186
Cumulative commission rate sensitivity gap	25,045	435,638	435,638	556,952	

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25. RISK MANAGEMENT (CONTINUED)

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company is exposed to market risk with respect to its investments in mutual funds. The Company limits market risks by only investing in the mutual funds managed by the Company.

Management's best estimate of the effect on statement of income due to a reasonably possible change in aggregate NAV of all the mutual funds invested in, with all other variables held constant

is indicated in the table below. In practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material.

Variable	Change in NAV%	Effect on income statement for the years ended	
		31 December 2021	31 December 2020
Net Asset Value (NAV)	±5	±6,213	±6,151

25.3 Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that sufficient funds are available to meet any commitment as they arise. All financial assets and liabilities of the Company at the statement of financial position are having contractual maturity of within 1 year, except for lease liabilities, contractual maturity of which is disclosed in note 10.

25.4 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Company's activities either internally or externally at the Company's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements. The Company manages within acceptable levels through sound operational risk management practices that are part of the day-to-day responsibilities of management at all levels.

26. CAPITAL ADEQUACY

The Company's objectives when managing capital are, to comply with the capital requirements set by the CMA to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base.

The CMA has issued Prudential Rules ("the Rules") dated 17 Safar 1434H (corresponding to December 30, 2012). According to the Rules, the CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under these Rules. In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

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26. CAPITAL ADEQUACY (CONTINUED)

	2021	2020
Capital Base:		
Tier-1 Capital	462,554	517,968
Tier-2 Capital	-	-
Total Capital Base	462,554	517,968
Minimum Capital:		
Market Risk	-	-
Credit Risk	60,384	77,811
Operational Risk	11,190	9,335
Total Minimum Capital	71,574	87,146
Surplus Capital	390,980	430,822
Capital Adequacy Ratio (times) (c)	6.46	5.94

- a) Tier 1 capital consists of paid-up share capital, accumulated profits, share premium (if any), reserves excluding revaluation reserves, with certain deductions as per the Rules.
- b) There is no Tier-2 capital for the year ended 31 December 2021.

The Minimum Capital Requirements for market, credit & operational risk are calculated as per the requirements specified in Part 3 of the Rules. The Company is required to maintain adequate capital as specified in the Rules. The capital adequacy ratio shall not be less than 1.

c) CAR ratio is computed, excluding integration related expenses of SAR 37.35 million from operating expenses. (CAR ratio including integration expenses would have been 5.72 times)

27. SUBSEQUENT EVENTS

There was no subsequent event after the statement of Financial position date which requires adjustment to / or disclosure in the financial statements.

28. APPROVAL OF FINANCIALS STATEMENTS

These financials statements were approved by the Board of Directors on 27 Shaban 1443H, corresponding to 30 March 2022.