ALAWWAL INVEST COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2019
together with the
Independent auditor's report

ALAWWAL INVEST COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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Licence No. 46/11/323 issued 11/3/1992

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 2019, 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 2019, 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 Certified Public 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 *Auditors' 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 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 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.

KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity.

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.

For KPMG Al Fozan & Partners
Certified Public Accountants

Hani Hamzah A. Bedairi
License No: 460

28 Ramadan 1441H
Corresponding to: 21 May 2020

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ALAWWAL INVEST COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(Amount in SAR '000s')

	Note	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	4	2,504	15,108
Time Deposits	5	450,544	425,584
Investments held at fair value through profit or loss	6	121,588	118,651
Margin finance receivables	7	143,627	246,650
Account receivables		616	707
Right of use asset	8	5,277	--
Deferred tax assets	14	--	574
Total assets		724,156	807,274
Liabilities			
Short-term borrowings	10	143,627	246,048
Due to related party	11	17,093	2,649
Accrued expenses and other liabilities	12	4,959	4,059
Zakat and income tax payable	14	7,293	7,551
Lease liability	9	6,721	--
Employees' end of service benefits	13	11,198	11,915
Total liabilities		190,891	272,222
Equity			
Share capital	15	400,000	400,000
Statutory reserve	15	23,040	22,691
Retained earnings		110,225	112,361
Total equity		533,265	535,052
Total liabilities and equity		724,156	807,274

The accompanying notes 1 to 27 form an integral part of these financial statements.

Chief Executive Officer

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ALAWWAL INVEST COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(Amount in SAR '000s')

		For the year ended 31 December	
	Note	**2019**	2018
Revenue			
Asset management fee	*18*	**11,101**	14,572
Investment banking income	*19*	**428**	6,803
Brokerage fee income		**9,592**	10,051
Special commission income	*20*	**18,595**	20,216
Fee for custody and other services		**742**	849
Unrealized gain on investments at fair value through profit or loss		**2,937**	1,607
Total operating income		**43,395**	54,098
Expenses			
Salaries and employee related expenses		**22,083**	22,716
Rent and premises related expenses		**688**	2,381
Special commission on short term borrowings		**4,739**	8,223
General and administrative expenses	*21*	**10,955**	10,314
Depreciation	*8*	**1,319**	--
Finance charge	*9*	**125**	--
Total operating expenses		**39,909**	43,634
Income before zakat and income tax		**3,486**	10,464
Zakat and Income tax	*14*	**(7,715)**	(7,616)
Net (loss) / income for the year		**(4,229)**	2,848
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Actuarial gain on employees' end of service benefits		**2,442**	1,914
Total other comprehensive income for the year		**2,442**	1,914
Total comprehensive (loss) / income for the year		**(1,787)**	4,762

The accompanying notes 1 to 27 form an integral part of these financial statements.

Chief Executive Officer

ALAWWAL INVEST COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(Amount in SAR '000s')

	Share capital	Statutory reserve	Fair value Reserve	Retained earnings	Total
Balance as at 1 January 2019	**400,000**	**22,691**	**--**	**112,361**	**535,052**
Net income for the year	--	--	--	(4,229)	(4,229)
Other comprehensive income	--	--	--	2,442	2,442
Total comprehensive income	--	--	--	(1,787)	(1,787)
Transfer to statutory reserve	--	349	--	(349)	--
Balance as at 31 December 2019	**400,000**	**23,040**	**--**	**110,225**	**533,265**
Balance as at 1 January 2018	400,000	21,645	3,885	104,760	530,290
Impact of adopting IFRS 9 as at 1 January 2018	--	--	(3,885)	3,885	--
Balance as at 1 January 2018 - restated	400,000	21,645	--	108,645	530,290
Net income for the year	--	--	--	2,848	2,848
Other comprehensive income	--	--	--	1,914	1,914
Total comprehensive income	--	--	--	4,762	4,762
Transfer to statutory reserve	--	1,046	--	(1,046)	--
Balance as at 31 December 2018	400,000	22,691	--	112,361	535,052

The accompanying notes 1 to 27 form an integral part of these financial statements.

Chief Executive Officer

ALAWWAL INVEST COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(Amount in SAR '000s')

	Note	For the year ended 31 December 2019	2018
Cash flows from operating activities			
Net income before zakat and income tax for the year		**3,486**	10,464
Adjustments for:			
Employees' end-of-service benefits	*13.1*	**1,725**	1,943
Unrealized gain on investments at fair value through profit or loss		**(2,937)**	(1,607)
Depreciation	*8*	**1,319**	--
Finance charge	*9*	**125**	--
Changes in operating assets and liabilities:			
Margin finance receivables		**103,023**	(52,682)
Account receivables		**91**	1,094
Due to related party		**14,444**	6,698
Accrued expenses and other liabilities		**900**	(751)
Cash generated from / (used in) operating activities		**122,176**	(34,841)
End-of-service benefits paid	*13*	**-**	(432)
Zakat and income tax paid	*14*	**(7,399)**	(7,805)
Net cash generated from / (used in) operating activities		**114,777**	(43,078)
Cash flows from investing activities			
Proceeds from sale of investments		**--**	7,676
Time deposits		**(24,960)**	(8,885)
Net cash (used in) / generated from investing activities		**(24,960)**	1,209
Cash flows from financing activities			
(Repayment of) / proceeds from short-term borrowings	*10.1*	**(102,421)**	52,248
Net cash (used in) / generated from financing activities		**(102,421)**	52,248
Net (decrease) / increase in cash and cash equivalents		**(12,604)**	7,961
Cash and cash equivalents at beginning of the year		**15,108**	7,147
Cash and cash equivalents at the end of the year	*4*	**2,504**	15,108
Supplemental information			
Special commission received during the year		**20,490**	18,620
Special commission paid during the year	*10.1*	**5,164**	7,904

The accompanying notes 1 to 27 form an integral part of these financial statements.

Chief Executive Officer

1. ORGANIZATION AND ACTIVITIES

Alawwal Invest Company ("the Company") is a Saudi Closed Joint Stock Company and operating in the Kingdom of Saudi Arabia under Commercial Registration No. 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to 9 January 2008). The Company has five branches (2018: 5 branches) operating in the Kingdom of Saudi Arabia as at 31 December 2019.

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:

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

2. BASIS OF PREPARATION

2.1. Statement of compliance

These financial statements presenting the operations conducted by the Company for the year ended 31 December 2019 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 Saudi Organisation for Certified Public 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.

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 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.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Use of judgements, estimates and assumptions (continued)

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 areas where management has used estimates, assumptions or exercised judgements are as follows:

- *Measurement of expected credit loss allowance (Note 2.4.1)*
- *Fair value measurement (Note 2.4.2)*
- *Defined benefits obligations – employees' benefits (Note 3 (f))*

2.4.1 Measurement of expected credit loss allowance

The measure of expected credit losses under IFRS 9 applicable on the Company's margin finance receivables requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk.

2.4.2 Fair value measurement

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, regardless of whether that price is directly observable or estimated using another valuation technique. The fair value of Company's investments in mutual funds held at fair through profit or loss is determined using unadjusted net asset value at the measurement date. The carrying values of remaining financial asset and liabilities such as cash at bank, time deposits, margin finance receivables, account receivables, short term borrowings, due to related party, accrued expenses and other liabilities approximates their fair values.

2.4.3 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 Standard issued but not yet effective

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted them in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the financial statements.

- Amendments to references to conceptual framework in IFRS Standards.
- Definition of Material (Amendment to IAS 1 and IAS 8).

(Amount in SAR 000s')

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 applied to all periods presented unless otherwise stated, where policies are applicable only on or from 1 January 2019, those policies have been particularly specified.

(a) Adoption of new standard as at 1 January 2019

Effective 1 January 2019, the Company has adopted IFRS 16 Leases. The impact of adoption of this standard is explained below.

IFRS 16 Leases
The standard replaces the existing guidance on leases, including IAS 17 'Leases", IFRIC 4 'Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Company's statement of financial position, unless the term is 12 months or less or the lease is for a low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs, which are amortised over the estimated useful life.

The Company has applied IFRS 16 using the modified retrospective approach, under which the right-of-use asset is measured at an amount equal to a lease liability at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The impact on transition is summarised below:

	1 January 2019
Operating lease commitments at 31 December 2018	**6,975**
Discounted using the Company's average incremental borrowing rate	**(379)**
Lease liabilities	**6,596**

Based on the adoption of new standard, the following accounting policies are effective 1 January 2019 replacing / amending or adding to the corresponding accounting policies set out in 2018 financial statements.

Right of Use Asset / Lease Liabilities
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 apply 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Adoption of new standard as at 1 January 2019 (continued)

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.

(b) 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:

- 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.

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

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 principle and interest on the principle amount outstanding.

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 measure at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Classification and measurement of financial assets (continued)

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 commission

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Commission / 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.

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.

Impairment of financial assets
The Company recognizes loss allowances for ECL on the overdraft loans extended to its customers under margin lending facilities. The Company measures loss allowances at an amount equal to lifetime ECL against margin finance receivables on which credit risk has increased significantly since their initial recognition. ECL are a probability-weighted estimate of credit losses.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

De-recognition of financial instruments (continued)

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.

(c) Revenue from contracts with customers

The Company recognises revenue as and when the performance obligations are met. 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 using the five-step approach to revenue recognition above.

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.

(c) Revenue from contracts with customers (continued)

Special commission income

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

(d) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

The discount rate used is determined based on the Company's external actuary's rate model which is based on US corporate bonds given that Saudi Arabian Riyal currency is currently pegged to US dollar.

(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 period-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. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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, financial charges and allowance for impairment are classified as general and administrative expenses.

(n) Zakat and taxation

Current income tax and zakat

The Company is subject to zakat and tax in accordance with the regulations of General Authority of Zakat and Income Tax ("GAZT"). 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.

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax assets and liabilities are offset when the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(o) Contingent liabilities

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly with the control of the Company; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; all should be assessed at reporting date and disclosed under contingent liabilities in the financial statements.

(Amount in SAR 000s')

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 2019	31 December 2018
Cash in hand	**1**	1
Cash at bank - Current account	**2,503**	15,107
	2,504	15,108

5. TIME DEPOSITS

Time deposit is placed with The Saudi British Bank ("SABB") "related party" and carries commission rate at 2.22% per annum (31 December 2018: 3.10% to 3.15% per annum) and maturing in April 2020 (31 December 2018: up to May 2019).

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 2019**		31 December 2018	
	Cost	**Fair value**	Cost	Fair value
Al-Yusr Saudi Riyal Morabaha Fund	**38,395**	**42,195**	38,395	41,231
Saudi Riyal Money Market Fund	**26,936**	**29,670**	26,936	28,990
Al Yusr Morabaha & Sukuk Fund	**44,693**	**49,723**	44,693	48,430
	110,024	**121,588**	110,024	118,651

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 2019, no expected credit loss has been recorded against these margin receivables because of sufficient liquid securities held in the customers' investment accounts as a collateral.

(Amount in SAR 000s')

8. RIGHT OF USE ASSET

Right of use asset related to leased property.

	2019	2018
Balance at 1 January	**6,596**	--
Depreciation charge for the year	**(1,319)**	--
Balance at 31 December	**5,277**	--

9. LEASE LIABILITY

	2019	2018
Balance at 1 January	**6,596**	--
Interest expense for the year	**125**	--
Balance at 31 December	**6,721**	--

	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**
Less than one year	2,790	101	**2,689**
Between one to five years	4,186	154	**4,032**
	6,976	255	**6,721**

10. 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 2019, the amount of this facility utilized by the Company amounted to SAR 143.6 million (2018: 246.1 Million). It carries special commission rate of three months SAIBOR.

10.1 Reconciliation of movements of short-term borrowings to cashflows arising from financing activities:

	2019	2018
Balance at 1 January	**246,048**	193,800
Accrued special commission expense for the year	**4,739**	8,223
Proceeds from short-term borrowings	**12,340**	105,475
Repayments of short-term borrowings	**(119,500)**	(61,450)
Balance at 31 December	**143,627**	246,048

11. 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 and key management personnel. Key management personnel include chief executive officer, chief operating officer, head of asset management, head of brokerage, head of investment banking and head of wealth management. The significant transactions with related parties and the related amounts other than those disclosed elsewhere in these financial statements are as follows:

(Amount in SAR 000s')

11. RELATED PARTY TRANSACTIONS (CONTINUED)

	Relationship	2019	2018
Advisory and arranging fee	Affiliate	**2**	402
Fee for custody and other services	Parent	**742**	815
Special commission income	Parent	**11,035**	10,410
Asset management fee	*Mutual funds managed by the Company	**9,686**	11,291
Special commission expense	Parent	**4,739**	8,223
Rent expense	Parent	**--**	1,213
Operating expenses charged by SABB under Service Level Agreement (Note 11.1)	Parent	**7,026**	7,026
Annual remuneration	Board of Directors	**350**	350

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

11.1 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.

In addition to Note 4, 5, 6, 7 and 10, and amounts disclosed elsewhere in these financial statements following balances are also outstanding in respect of related parties:

	Relationship	31 December 2019	31 December 2018
Due to related party	Parent	**17,093**	2,649
Short term borrowings	Parent	**143,325**	245,322
Special commission accrued on short term borrowings	Parent	**302**	726

Remuneration paid to key management personnel is as follows:

	Key management personnel	
	2019	2018
Managerial remuneration	**3,739**	3,618
Bonus and incentives	**526**	758
Employee benefits	**1,646**	1,668
	5,911	6,044
Number of persons	**6**	6

(Amount in SAR 000s')

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 December 2019	31 December 2018
Accrued employees benefits	**2,621**	2,237
Other expenses	**2,337**	1,822
	4,958	4,059

13. EMPLOYEES' END OF SERVICE BENEFITS

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

	31 December 2019	31 December 2018
Employees' end of service benefits	**11,198**	11,915

	31 December 2019	31 December 2018
Balance at beginning of the year	**11,915**	12,318
Current service cost	**1,116**	1,355
Interest cost	**548**	588
Re-measurement gain recognized in other comprehensive income	**(2,442)**	(1,914)
Past service cost	**61**	-
Benefits paid during the year	**-**	(432)
Balance at the end of the year	**11,198**	11,915

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

	31 December 2019	31 December 2018
Current service cost	**1,116**	1,355
Interest cost	**548**	588
Past service cost	**61**	-
EOSB costs charged to profit or loss	**1,725**	1,943
Actuarial gain on end of service benefits recognized in other comprehensive income	**(2,442)**	(1,914)

13.2 Principal actuarial assumptions

The following were the principal actuarial assumptions:

Particulars	**2019**	2018
Discount Rate used (%)	**3.20**	4.60
Rate of future salary growth (%)	**3.00**	5.38
Retirement age (years)	**60**	60

(Amount in SAR 000s')

13. EMPLOYEES' END OF SERVICE BENEFITS (COTINUED)

13.2 Principal actuarial assumptions (continued)

Discount rate used

This rate was used to calculate the actuarial present value of the projected benefits. In accordance with IFRS, the rate used to discount employee benefit obligation is determined by reference to the market yields at the end of the reporting period. Since there is no reference corporate bond or government bond market in Saudi Arabia, the rate 3.20% is derived by the yield on Citi Pension Liability index (CPLI) with similar duration of liability (country risk premium is 97 basis point).

Rate of growth in salary

The rate of 3% has been assumed as the long-term salary growth rate and is broadly consistent with the benchmark salary increment rate of the region.

Sensitivity analysis

Incorporating reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, the amount of defined benefit obligations would have been:

	31-Dec-19		31-Dec-18	
	Increase	**Decrease**	Increase	Decrease
Discount rate + / - 1%	10,499	11,987	10,747	13,281
Future salary growth + / - 1%	12,009	10,466	13,247	10,752

14. ZAKAT AND INCOME TAX

	For the year ended 31 December	
	2019	2018
Zakat for the year	**6,722**	6,519
Income tax for the year	**419**	997
Deferred tax expense for the year	**574**	100
	7,715	7,616

14.1 The principal elements of the Company's Zakat base are as follows:

	2019	2018
Share Capital	**240,000**	240,000
Adjusted Net Income	**3,145**	7,474
Provisions and Reserves	**17,683**	13,301
Zakat base	**260,828**	260,775
Zakat charge for the year	**6,722**	6,519

(Amount in SAR 000s')

14. ZAKAT AND INCOME TAX (CONTINUED)

14.2 Income tax for the year is as follows:

	2019	2018
Non-Saudi shareholders share of adjusted net income	**2,096**	4,983
Income tax for the year	**419**	997

14.3 Movement in zakat and income tax provision

	2019	2018
Balance as at the beginning of the year	**7,551**	7,840
Zakat provision during the year *(Note 14.1)*	**6,722**	6,519
Income tax provision during the year *(Note 14.2)*	**419**	997
Payments during the year for prior years	**(7,399)**	(7,805)
Balance at the end of the year	**7,293**	7,551

14.4 Status of assessment

The Company has filed all zakat and tax returns to year 31 December 2018. The tax/zakat assessment of the Company is finalized up to the year ended 31 December 2013.

For the year 2014, the Company also received initial assessment for additional zakat of approximately SAR 2.596 million. This additional liability has arisen due to the disallowance of investments. The Company has filed an appeal with respective committees against the initial assessment, which is pending adjudication. As at 31 December 2019, the Company has not recorded any provision against additional zakat in their financial statements as management believes the outcome of appeal would be in favor of the Company.

Final assessments for the years 2015 to 2018 are yet to be raised by the General Authority of Zakat and Tax ("GAZT").

14.5 Deferred tax asset

During the year, the Company has reversed deferred tax asset relating to the prior year amounting SAR 0.57 million considering it is non-recoverable. As of 31 December 2019, the Company has unrecognized deferred tax assets in relation to deductible temporary differences on account of end of service benefit provision amounting to SAR 5 million as the management believe that it is not probable that sufficient taxable profit will be available to utilize those deductible temporary differences. The recognition would have resulted in deferred tax assets on deductible temporary differences amounting to SAR 1 million.

15. SHARE CAPITAL AND RESERVES

Share capital
The authorized, issued and fully paid up share capital of the Company, amounting to SAR 400 million divided into 400,000 shares of SAR 1,000 each, which is fully paid and owned by SABB.

On 16 June 2019, SABB completed a statutory merger with Alawwal Bank ("AAB"). The AAB legal entity ceased to exist following the merger. After the merger, Alawwal Invest has become a 100% owned subsidiary of SABB.

(Amount in SAR 000s')

15. SHARE CAPITAL AND RESERVES (CONTINUED)

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.

16. CLIENTS' CASH ACCOUNTS

At 31 December 2019, the Company was holding clients' cash accounts amounting to SAR 1.45 billion (2018: SAR 1.73 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 these are held by the Company in fiduciary capacity.

17. ASSETS UNDER MANAGEMENT

These represent the mutual funds', and discretionary portfolios' assets related to the funds unitholders managed by the Company, which amount to SAR 1.95 billion as at 31 December 2019 (2018: SAR 2.14 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.

18. ASSET MANAGEMENT FEE

	For year ended 31 December	
	2019	2018
Management fee from*Mutual funds managed by the Company	**9,686**	11,291
Management fee from Discretionary portfolio management	**1,415**	3,281
	11,101	14,572

***** *Mutual funds are mentioned in note 11.*

19. INVESTMENT BANKING INCOME

	For year ended 31 December	
	2019	2018
Mergers and acquisitions	**158**	6,353
Private placement	**270**	450
	428	6,803

20. SPECIAL COMMISSION INCOME

	For year ended 31 December	
	2019	2018
Margin lending income	**7,560**	9,806
Time deposits	**11,035**	10,410
	18,595	20,216

(Amount in SAR 000s')

21. GENERAL AND ADMINISTRATION EXPENSES

	For year ended 31 December	
	2019	2018
Expenses under Service Level agreement (Note 11.1)	**7,026**	7,026
Communication expenses	**1,824**	1,979
Professional expenses	**577**	667
Stationery and printing	**110**	166
Traveling	**25**	94
Other expenses	**1,393**	382
	10,955	10,314

22. 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).

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 2019				
Financial assets measured at fair value	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments held at FVTPL	**121,588**	**-**	**121,588**	**-**	**121,588**
	121,588	**-**	**121,588**	**-**	**121,588**

	31 December 2018				
Financial assets measured at fair value	Carrying value	Level 1	Level 2	Level 3	Total
Investments held at FVTPL	118,651	-	118,651	-	118,651
	118,651	-	118,651	-	118,651

(Amount in SAR 000s')

22. FAIR VALUE MEASUREMENTS (CONTINUED)

The fair value of investments classified within Level 2 is determined either using unadjusted net asset value. The unadjusted net asset value is used when the units in a fund are redeemable at the reportable net asset value at, or approximately at, the measurement date.

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, for which carrying amount is a reasonable approximate of fair value.

23. 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 services

Investment banking provides 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 operates under the brand of Alawwal Invest and acts as principal and agent, providing custody and clearing services to clients, providing access to regional exchanges.

Asset management services

The Company's asset management include fund management services which invest in equity instruments and money market instruments.

Corporate

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

Inter-segment pricing is determined on an arm's length basis.

A. Information about reportable segments

Information related to each reportable segment is set out below. The Company's total operating income and expenses, and the results for the year then ended, by each operating segment, are as follows:

	2019				
	Reportable segments				
	Investment Banking	Brokerage	Asset Management Services	Corporate	Total
Revenue	**428**	**17,895**	**14,037**	**11,035**	**43,395**
Expense	**2,271**	**10,006**	**3,649**	**23,983**	**39,909**

(Amount in SAR 000s')

23. OPERATING SEGMENTS (CONTINUED)

A. Information about reportable segments (continued)

	2018				
	Reportable segments				
	Investment Banking	Brokerage	Asset Management Services	Corporate	Total
Revenue	6,803	20,706	16,179	10,410	54,098
Expense	3,554	13,238	3,457	24,092	43,634

B. *Geographic information*

The Company earns all its revenues and all its assets are located in Kingdom of Saudi Arabia.

24. RISK MANAGEMENT

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.

The Company has exposure to the following risks arising from financial instruments:

- Credit risk
- Market risk
- Liquidity risk

24.1 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.

(Amount in SAR 000s')

24. RISK MANAGEMENT (CONTINUED)

24.1 Credit risk (continued)

	Total maximum exposure as at 31 December 2019	Total maximum exposure as at 31 December 2018
Cash at bank	**2,504**	15,108
Time Deposits	**450,544**	425,584
Margin finance receivables	**143,627**	246,650
Account receivables	**616**	707
	597,291	688,049

Cash at bank and Time Deposits

The Company kept its surplus funds and placements with SABB having sound credit rating. As per Fitch ratings, SABB's long term debt and short debts are rated as A- and F-2 respectively 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 customers base, including the default risk of the industry and the country in which customers operate.

As on 31 December 2019, none of the margin finance receivables are neither past due nor impaired. The facilities are collateralised by underlying equities and cash held in the customers' investment accounts.

24.2 Market risk

Market risk is made up of key risks – commission rate risk, foreign exchange risk and equity price risk. Market risk is measured, monitored and managed with a blend of quantitative and qualitative approach along with experienced talent and quantitative tools include sensitivity analysis and Value at Risk approach. In addition, exposure limits for individual transactions, concentration, maturities and other risk parameters captures the risk timely.

Foreign exchange 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.

Cash flow and fair value 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 arise 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. The Company has an over-draft credit facility with SABB to satisfy its liquidity requirements.

(Amount in SAR 000s')

24. RISK MANAGEMENT (CONTINUED)

24.2 Market risk (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 for a year due to a reasonably possible change in NAV, 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. An equivalent decrease shown below would have resulted in an equivalent, but opposite, impact.

		Effect on income statements for the years ended	
Variable	**Change in NAV%**	**31 December 2019**	**31 December 2018**
Net Asset Value (NAV)	±5	**±6,079**	±5,933

24.3 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's at the balance sheet are having contractual maturity of within 1 year, except for lease liabilities, contractual maturity of which is disclosed note 9.

25. CAPITAL REGULATORY REQUIREMENT AND CAPITAL ADEQUACY

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

The Company monitors the capital adequacy and related ratios using the framework established by CMA effective 1 January 2014. Accordingly, the Company's Pillar 1 requirement related to Tier capital base, minimum capital requirement and capital adequacy ratio are as follows.

	2019 SAR '000	2018 SAR '000
Capital Base:		
Tier-1 Capital	**533,265**	534,478
Tier-2 Capital	-	-
Total Capital Base	**533,265**	534,478
Minimum Capital:		
Market Risk	**19,454**	-
Credit Risk	**48,738**	89,759
Operational Risk	**9,977**	10,909
Total Minimum Capital	**78,169**	100,668
Surplus Capital	**455,096**	433,810
Capital Adequacy Ratio (times)	**6.82**	5.31

25. CAPITAL REGULATORY REQUIREMENT AND CAPITAL ADEQUACY (CONTINUED)

a) Capital Base of the Company comprise of

- **Tier-1 capital** consists of paid-up share capital, retained earnings, reserves excluding revaluation reserves, with certain deductions as per the Rules.
- **Tier-2 capital** consists of revaluation reserves with certain deductions as per the Rules.

b) The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in the Rules.

26. SUBSEQUENT EVENTS

Since early January 2020, the coronavirus ("COVID-19") outbreak has spread across globally, causing disruption to business and economic activity. The COVID-19 pandemic has significantly impacted the stock markets around the world to date and may continue to do so in the coming months of 2020, whereby potentially impacting the earnings and cash flows of the Company particularly from margin financing and brokerage services. The Company considers this outbreak to be a non-adjusting post balance sheet event. The scale and duration of this outbreak remains uncertain and as it evolves globally in 2020, the Company will evaluate the potential impacts and respond accordingly.

27. APPROVAL OF FINANCIALS STATEMENTS

These financials statements were authorized for issue by the Board of Directors on 27 Ramadan 1441H, corresponding to 20 May 2020.