

Alawwal Invest
Board of Directors' Report
31 December 2020



The Board of Directors of Alawwal Invest (AI) is pleased to submit its annual report to the shareholder for the financial year ended 31 December 2020.

1. Company Profile, Company Objectives and Business Overview:

1.1 Company Profile

AI was established on 30 Dhul Hijjah 1428 (corresponding to 9 January 2008) with CR No. 1010242378. The Company is an independent (100% owned) subsidiary of Saudi British Bank (SABB); with a vision to become a leading provider of innovative financial services and appropriate financial solutions for private and institutional clients with the best standards of investment services and products in the Kingdom of Saudi Arabia. AI is a Saudi One Person Closed Joint Stock Company with fully paid Capital of SAR 400,000,000 divided into 40,000,000 shares of SAR 10 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.

1.2 Company Objectives

Alawwal Invest is staffed with a team of professionals having extensive experience in the field of Investment Banking, Brokerage and Asset Management across several markets. This team is well qualified and prepared to offer solutions to meet clients' specific investment needs through our wide range of products and services. Alawwal Invest will strive to deliver first class investment performance and quality of services to its clients.

Alawwal Invest generates its operating income from activities in the Kingdom of Saudi Arabia and has no branches, subsidiaries or associates established or operating outside the Kingdom of Saudi Arabia.

1.3 Business Overview:

Alawwal Invest provides comprehensive range of products and financial services for corporations, and individuals including Brokerage, Asset Management and Investment Banking. It aims at providing its clients with high quality of both conventional and Shariah-compliant investment products and services that meet their particular requirements in terms of capital growth and returns. Its services are based on the solid values and vast investment experience in banking products and services. Its main activities are represented in the following securities business:

1.3.1 Brokerage:

Alawwal Invest Brokerage is the execution arm of Alawwal Invest. It offers clients a wide range of products including local equity, international equity and fixed income products in both local and international markets. For Local Equity Brokerage, clients rely on our multiple trading channels including Alawwal Invest e-Tadawul, mobile solutions and Centralized Share Trading Unit to trade on all Tadawul listed stocks, ETF and Sukuk.

For clients who are dealing in international markets, Alawwal Invest Brokerage offers a full range of market leading brokerage services including execution, clearing and safekeeping. Alawwal Invest Brokerage also offers margin lending facilities to its customers to trade in the Saudi Stock Exchange (Tadawul) local equities.

Performance in 2020:

Alawwal Invest's total value of shares traded for the year 2020 reached SR30.23 billion compared to SAR15.15 billion for the previous year, increased by 99.45%. The total number of transactions executed during 2020 reached 987.8 thousand compared to 436 thousand transactions for the previous year, increased by 126.92%.

Alawwal Invest's online total value of shares traded for 2020 reached SAR 18.9 billion compared to SAR 9.1 billion for the previous year, increased by 108.27%. Alawwal Invest online channels have contributed 63% of Alawwal Invest's total value traded in 2020 compared to 60% in the previous year.

Alawwal Invest total value traded in International Markets and Fixed Income reached SAR 851 million (US\$226.93 million) in 2020 compared to SAR 981.3 million (US\$261.68 million) for the previous year, representing a decrease of 13.28%.

Outlook for 2021:

Alawwal Invest aims to increase its market share in local brokerage by;

- Enhancing the electronic trading channels to meet current customers' growing needs and demands.
- Automate all brokerage functions and services requirements end-to-end.

1.3.2 Asset Management:

Alawwal Invest Asset Management offers its clients both packaged and customized solutions depending on their particular investment needs. It manages 7 conventional and Shariah-compliant mutual funds, offering investors access to local, and regional markets through a team of experienced and qualified professionals. Asset Management also offers Managed Accounts for high net worth individuals as well as for corporate and institutional clients.

Performance in 2020:

The year 2020 was unusual paradox for whole economy, Alawwal Invest's end of 2020 AUMs stood at SAR 1.32 billion. In terms of Funds performance, Asset Management closed the year with a performance slightly below benchmark for Equity Funds, and managed to perform very well in the fixed income category especially for our biggest funds Al Yusr Morabaha and Sukuk Fund. Due to COVID-19, there was no progress in launching new products.

Outlook for 2021:

In 2021, Alawwal Invest seeks to increase AUMs, through enhancing sales mechanism and enhancing its products distribution. In addition, Asset Management is aiming to add more resources to the department, which will lead to enhancing the performance of existing funds, and will be contributing to launching new products.

1.3.3 Investment Banking

Investment Banking Department (IBD) offers advisory services for a wide array of transactions including Initial Public Offerings (IPO), Rights Issues (RI), Mergers and Acquisitions (M&A), Sukuk Issuances, Private Placements as well as manages Alawwal Invest's investments in IPOs and RI Offerings.

For IPOs and RIs, IBD plays one or more of three roles namely; Financial Advisor, Lead Manager and Underwriter. IBD also arranges M&A transactions for its corporate clients, where IBD may act as a sell-side or a buy-side advisor.

Performance in 2020:

2020 was a tough year for businesses around the world due to Covid-19 pandemic and related shutdowns. Investment Banking activities in the Kingdom also remained low in 2020, with a limited number of transactions took place in equity capital market (only 3 IPOs), debt capital market and M&A.

During the year, all active mandates and potential leads of IBD were stalled due to uncertainty, resulted in subdued activities and a meagre revenue of SAR 0.3M in 2020.

New business development efforts also suffered due to weak operating and financial performances of the companies caused by uncertainty and business shut-downs.

2. Financial Results and Performance Highlights

2.1 Key Financial Highlights

SAR '000s	2020	2019	2018	2017	2016
Investments	123,041	121,588	118,651	124,720	122,945
Loans and advances *	164,462	143,627	246,650	193,968	-
Total assets	734,210	724,156	807,274	749,058	554,330
Total liabilities	216,242	190,891	272,222	218,768	23,711
Shareholders' equity	517,968	533,265	535,052	530,290	530,619
Operating income	40,166	43,395	54,098	48,521	59,621
Operating expenses	(37,339)	(39,909)	(43,634)	(42,425)	(43,896)
Net income before zakat and income tax	2,827	3,486	10,464	6,096	15,725
Net (loss) / income after zakat and income tax	(15,290)	(4,229)	2,848	(725)	8,284

* Relates to margin lending portfolio

The Company generates its operating income from activities in the Kingdom of Saudi Arabia and has no branches, subsidiaries or associates established or operating outside the Kingdom of Saudi Arabia.

2.2 Financial Results for the year 2020

Alawwal Invest recorded a net loss after zakat and income tax of SAR 15 million for the year ended 31 December 2020, an increase of SAR 11 million compared to SAR 4 million loss after zakat and income tax for the year ended 31 December 2019. Alawwal Invest's operating income for the year 2020 was SAR 40 million compared to SAR 43 million for the year 2019, decreased mainly due to the drop in the interest rates during the year 2020, partially offset by an increase in the brokerage fee income. The operating expenses decreased by SAR 3 million mainly due to lower special commission expense for the year 2020. Further, the Company settled one off additional zakat of SR 7 million assessed for the years 2015-2018, mainly resulting in the increase in net loss after zakat and income for the year 2020.

Balance sheet as at 31 December 2020

Total assets of the Company were SAR 734 million at 31 December 2020, compared with SAR 724 million at 31 December 2019, an increase of SAR 10 million. The growth in balance sheet was mainly driven by increase in margin lending portfolio from SAR 144 million in 2019 to SAR 164 million in 2020, partially offset by decrease in time deposits placements with The Saudi British Bank (SABB). The Company's total investments in Alawwal Invest managed funds were SAR 123 million, of which investments in Al Yusr Morabaha and Sukuk Fund were SR 51 million. The Company extends margin lending facilities on a selective basis to its customers for the purpose of investing in the Saudi equity market. The facilities are collateralized by underlying equities and cash held in the customers' investment accounts. The Company has an overdraft credit facility of SAR 600 million from SABB; to finance margin lending facilities. As at 31 December 2020, the amount of this facility utilized by the Company amounted to SAR 164 million compared to SAR 144 million in 2019. Shareholders' equity was negatively impacted in 2020 due to the loss after zakat and tax incurred for the year 2020.

3 Corporate Governance

Alawwal Invest is committed to upholding the highest global standards of corporate governance. This entails complying with regulatory requirements, protecting the rights and interests of all stakeholders, enhancing shareholder value, and achieving organizational efficiency.

3.1 Board of Directors Preview

The Board of Directors is responsible for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Board works as a team to provide strategic leadership to management and staff; ensures the organization's fitness for purpose; sets the values and standards for the Company; and ensures that sufficient financial and human resources are available. The Board's role and responsibilities are outlined in the Board Memorandum.

3.2 Profile of Alawwal Invest's Board of Directors

3.2.1 Active Board Members of Alawwal Invest as at 31DEC20

The Board of Directors comprises five members, of whom two are Independent Members.

	Board Member Name	Classification	Effective date of Appointment	Name(s) of other JSCs in which he is member of Board of Directors
1	Mr. Khalid Abdullah Al-Molhem	Chairman - Non-executive Board Member	12 MAY 2020	1. SABB 2. EMAR The Economic City
2	Mr. Omar Al-Hoshan	Vice-Chairman & Independent Board Member	14 JUN 2020	1. Tadawul 2. The Saudi Investment Recycling Co.
3	Mr. Salman Al-Dughaither	Independent Board Member	14 JUN 2020	AlMayadin Co. for Trading (SLLC)
4	Miss. Maha Al-Sudairi	Non-executive Board Member	12 MAY 2020	SABB Takaful (JSC)
5	Mr. Bashaar Al-Qunaibit	Non-executive Board Member	31 DEC 2020	1. SABB Takaful (JSC) 2. SAIL 3. SIJIL

3.2.2 Board Members Meetings during 2020

The Board of Directors held four meetings during 2020 as shown in the table below:

	Date of Meeting	Total Strength	Number of Attendees	Percentage Attendance	Members Attended	Members who did not attend and provided proxies
1	08MAR20	5	5	100%	Mr.Saleh Eid Al-Husseini Mr.Naif Al-Abdulkarim Mr.Omar AlHoshan Mr.Salman Al-Dughaither Mr.Abdullah Saade	Not Applicable
2	18JUN20	5	5	100%	Mr.Khalid Abdullah Al-Molhem Mr.Naif Al-Abdulkarim Ms. Maha Al-Sudairi Mr.Omar AlHoshan Mr.Salman Al-Dughaither	Not Applicable
3	08OCT20	5	5	100%	Mr.Khalid Abdullah Al-Molhem Mr.Naif Al-Abdulkarim Ms. Maha Al-Sudairi Mr.Omar AlHoshan Mr.Salman Al-Dughaither	Not Applicable
4	28JAN21	5	5	100%	Mr.Khalid Abdullah Al-Molhem Ms. Maha Al-Sudairi Mr.Bashaar Al-Qunaibit Mr.Omar AlHoshan Mr.Salman Al-Dughaither	Not Applicable

3.2.3 Board Members who resigned during 2020

	Board Member Name	Classification	Effective date of resignation
1	Mr.Saleh Eid -Husseini	Chairman & Independent Board Member	23 April 2020
2	Mr. Naif Al Abdulkareem	Non-executive Board Member	31 Oct 2020
3	Mr.Abdallah Saade	Executive Board Member	11 May 2020

3.3 Governance Committees

The Board has established 2 Sub committees. The Chairs of each committee report matters of significance to the Board after each meeting and the minutes of the meetings are made available to all Board members. The detailed roles and responsibilities of each committee are set out in its terms of reference established for each sub-committee. The effectiveness of the committees is evaluated as part of the overall performance evaluation of the Board and through annual effectiveness reviews at a committee level.

3.3.1 Audit Committee

Alawwal Invest's Audit Committee was formed in October 2011 reporting directly to the Board of Directors. The committee meets minimum four times during the year and the Chair report matters of significance to the Board after each meeting and the minutes of the meetings are made available to all Board members. The detailed roles and responsibilities of the audit committee are set out in its terms of reference.

The effectiveness of the audit committee is evaluated as part of the overall performance evaluation of the Board and through annual effectiveness review at the committee level. The Audit Committee shall consist of at least three members including Non-Executive or Independent Board Members, and non-board members. In discharging their responsibility, the Audit committee oversees:

- Preparation of financial statements, compliance with accounting standards and accounting judgements;
- The effectiveness of internal financial control and compliance functions;
- The independence and performance of Internal Audit;
- The relationships with external auditors, including their independence, performance and approval of any special services

The Audit Committee actively monitors the adequacy and effectiveness of the internal control framework to provide reasonable assurance that all identified weaknesses are being remediated and that the internal control framework of Alawwal Invest remains effective.

The Audit Committee during 2020 comprised of the following members:

	Board Member Name	Classification
1	Mr. Omar AlHoshan	Chairman & Independent Board Committee Member
2	Mr. Abdulrahman AlZughaibi	Non-Board Committee Member
3	Mr. Osama AlHudaithi	Non-Board Committee Member
4	Ms. Maha Al-Sudairi	Non-Executive Board Committee Member (Subject to AGM approval)

Dates of the Audit Committee Meetings and Attendance during 2020:

	Date of Meeting	Total Strength	Number of Attendees	Percentage Attendance	Members Attended	Members who did not attend and provided proxies
1	03MAR20	3	2	67%	Mr. Omar AlHoshan Mr. Abdulrhman AlZughaibi	Mr. Osama AlHudaithi
2	11MAY20	3	3	100%	Mr. Omar AlHoshan Mr. Abdulrhman AlZughaibi Mr. Osama AlHudaithi	
3	29SEP20	3	3	100%	Mr. Omar AlHoshan Mr. Abdulrhman AlZughaibi Mr. Osama AlHudaithi	
4	07DEC20	4	4	100%	Mr. Omar AlHoshan Mr. Abdulrhman AlZughaibi Mr. Osama AlHudaithi Ms. Maha M. AlSudairi	

Alawwal Invest BoD Report 2020

3.3.2 Board Risk and Compliance Committee

The Board Risk & Compliance Committee ("BRCC") was formed by the Board on 02DEC20 to handle risk management affairs. As per its terms of reference, the BRCC consists of 3 members, two of which are non-executive and one executive member and reports directly to the Board. The BRCC will meet four times a year. The committee is assigned to oversee the Risk and Compliance functions and advise the Board on all high-level risk and compliance related matters, and to provide strategic direction for Risk and compliance across Alawwal Invest, including setting the risk and compliance vision, deciding priorities and overseeing the execution of major transformational risk and compliance initiatives, advise the Board on risk appetite and tolerance in determining strategy, advise the Board on the risks associated with proposed strategic acquisitions or disposals as requested from time to time, assess the risks involved in Alawwal Invest business covering Credit, Market, Operational, and other risks and how they are controlled, and to require regular risk management reports from management, review any issues raised by the Audit Committee that may affect Alawwal Invest risk management and compliance and review the regulatory prescribed documents on Risk management and to provide appropriate recommendations before approval by the Board.

The BRCC during 2020 comprised of the following members:

	Board Member Name	Classification
1	Ms. Maha AlSudairi	Chair
2	Ms. Shaima Khan	Member
3	Mr. Mazen Bunyan	Member

Dates of the Board Risk & Compliance Committee Meetings and Attendance during 2020:

	Date of Meeting	Total Strength	Number of Attendees	Percentage Attendance	Members Attended	Members who did not attend and provided proxies
1	08DEC20	3	3	100%	Ms. Maha Al-Sudairi Ms. Shaima Khan Mr. Mazen Bunyan	No absentees

3.4 Remuneration and Compensation

Details of the expenses, remuneration and salaries paid to the Board members and six of the senior executives, including the CEO and Finance Manager during 2020 is provided in the tables below:

Statement	Executive Board Members*	Non-Executive Board Members (SAR '000')	Independent Board Members (SAR '000')
Allowance for attendance of the board of directors' sessions	NIL	NIL	NIL
Allowance for attendance of the committees' sessions	NIL	NIL	NIL
Periodic and annual remunerations	NIL	83	318
Incentive plans	NIL	NIL	NIL
Any compensations or other in-kind benefits paid monthly or annually	NIL	NIL	NIL
Total	NIL	83	318

Statement	Six of the senior executives who received the highest remunerations and compensations in addition to the CEO and finance manager (SAR '000s)
Salaries and wages	3,622
Allowances	1,465
Periodic and annual remunerations	756
Incentive plans	855
Commissions	-
Any compensations or other in-kind benefits paid monthly or annually	922
Total	7,620

3.4.1 Waivers of Remuneration and Compensation

The following Board Members have waived their remuneration and compensation during 2020:

1. Mr. Abdullah Saade
2. Mr. Naif AlAbdulkareem
3. Mr. Bashar AlQunaibit
4. Ms. Maha AlSudairi

3.4.2 Staff Benefits and Schemes

According to the Labor Law of the Kingdom of Saudi Arabia and the Company's internal policies, staff benefits are due for payment during or at the end of an employee's period of service. The end of service benefit outstanding as at 31 December 2020 based on independent actuary valuation amounted to SAR 13 million.

4. Penalties or Sanctions

Alawwal Invest endeavor is to apply in form and spirit all capital market laws, rules and regulations issued by the regulators and other Ministries in its day to day business.

There were no fines or penalties imposed on the company by the CMA during 2020. However, Alawwal Invest was subject to penalty from GAZT of SAR 34,045 and SAR 10,000 due to delay in filing July 2020 VAT return and delay in providing information to GAZT, respectively.

As part of the remediation, the company has taken various corrective and preventive measures to avoid such violations and ensure compliance with the pertinent regulations in the future.

5. Internal Audit Overview of Systems and Controls

Audit Update of 2020:

Internal Audit represents the independent Third Line of Defense and reviews the design and operating effectiveness of the Alawwal Invest internal control framework and policies established by business and functional Risk Owners to provide independent and objective assurance that Alawwal Invest is operating within its stated risk appetite and in compliance with the regulatory framework. The Internal Audit Manager reports to the Audit Committee on all audit related matters. The executive management is responsible for ensuring that management action plans provided to the Internal Audit function are implemented within an appropriate and agreed timetable.

Audit Committees opinion on the Internal Audit system

During 2020, Internal Audit conducted a number of reviews across Alawwal Invest in line with the approved Internal Audit Plan and identified several weaknesses in the internal control framework. However, with the appointment of key Senior Management positions and an increased focus on resolving control weaknesses in the organization, the annual review of the effectiveness of internal control procedures demonstrated a positive change in the control environment compared to previous periods.

6. Key Risks of Alawwal Invest

6.1 Credit Risk

Credit risk primarily results from margin lending activities and deposit placements. Margin lending is conducted through an approved product program that requires customer suitability analysis and customer categorization to determine their margin facility eligibility. Margin lending portfolio related limits; customer collateral coverage and margin call actions are independently monitored, while placements allowed with banks having sound credit rating.

6.2 Operational Risk

Operational Risk is managed across businesses and support functions through sound operational processes and controls, to prevent errors and breach of policies and regulations. The Risk & Control Assessment process ensures effectiveness of controls and early detection of non-compliance.

6.3 Liquidity Risk

The Company has a highly liquid balance sheet with the majority of its assets being placements with the Bank, which is considered to be sufficient to meet its obligations. It is the Company's policy to maintain sufficient liquidity to meet operational and business requirements at all times.

7. Liquidity and Funding

Risk is managed by cash flow matching and maintaining sufficient cash resources, investing in high credit-quality liquid investments, monitoring investments and cash concentrations and restricting them where appropriate, and establishing committed borrowing facilities. The liquidity risk related to these cash flows is managed by matching external debt obligations, internal margin lending growth and internal cash flows and by maintaining an appropriate liquidity buffer.

Our primary sources of funding are internal cash flows generated from its business operations, cash from excess capital and finally borrowings from banks in form of committed facilities. We use a combination of these funding sources and meet the company's minimum requirement thresholds established for own funds and eligible liabilities. The positive funding gap is deployed in liquid assets (investments in Alawwal Invest managed local funds and short term deposit placements) as per the proprietary investment policy.

The following 'Funding sources and uses' table provides a consolidated view of how our balance sheet is funded:

Liquidity and Funding Sources	Balance 2020 SAR in millions	Description
Cash balances and deposit placements with bank	441	Include cash balances of the company that are generated from its business activities and capital. The company holds its balances with SABB.
Investments	123	The company invests its excess cash in its own Funds.
Borrowing from Bank	164	The company has established adequate level of borrowing and overdraft facilities with SABB (limit SR 600m) - revolving facilities (12 months renewable annually) to support funding of Margin lending.

8. Related Party Balances and Transactions

Related parties of the Company include The Saudi British Bank (the "Parent") and its affiliates, funds managed by the Company, the Board of Directors and its committees and key management personnel. The Company and its related parties transact with each other in the ordinary course of business. The transactions with related parties are disclosed in note 12 of the 2020 audited financial statements of the Company.

8.1 Contracts or Business with Related Parties

The company did not, nor has it entered into, any contract in which any member of the Board, the Chief Executive Officer, the Executives, or any of their associates has or had any material interest.

9. Statutory payments

Statutory payments payable by the company during 2020 consist of Zakat payable by Saudi shareholders, tax payable by the foreign partner, and the amounts payable to The General Organization for Social Insurance (GOSI) which represents staff insurance contributions.

Alawwal Invest BoD Report 2020

The statutory payments for the year 2020 were as follows:

	SAR '000s
Zakat attributable to the Saudi Shareholders	17,954
Income tax attributable to non-Saudi shareholder	163
GOSI payments	1,066

10. Accounting Standards

The financial statements of the Company have been prepared in accordance with 'International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA) and in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

11. Board of Directors Assurance

The Board assures shareholders and other interested parties that to the best of its knowledge and in all material aspects:

- Proper books of account have been maintained.
- The system of internal controls is sound in design and has been effectively implemented.
- It has no evidence that suggests the Company's inability to continue as a going concern.

12. Appointment of external auditors

At the company's Extraordinary General Assembly on 14 June 2020, the shareholders endorsed the selection of KPMG AlFozan & Partners as external auditors to audit Alawwal Invest's annual financial statements for the year ended 31 December 2020.

13. Board of Directors Approval of Financial Statements

The financial statements for the year ended December 31, 2020 were approved by the Board of Directors on 24 March 2021.

The Board of Directors would like to express its thanks and gratitude to Alawwal Invest's clients and employees for their continuous support during the year 2020. The Board as well would like to express its thanks and gratitude to the Capital Market Authority for its continuous endeavors to regulate and develop the financial market so as to support the efforts to strengthen the regulatory environment and improve the foundations and standards of governance within authorized persons, with rational leadership directives supporting the development, growth and stability of the financial market.