

Board of Directors' Report

2022

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CHAIRMAN'S MESSAGE



On behalf of Alawwal Invest Company's ("Alawwal Invest" or "AI" or the "Company") Board of Directors, I am pleased to present the Annual Report for the year that ended on 31 December 2022. It was a special year in the history of Alawwal Invest marked by the successful completion of transferring the asset management, retail brokerage and retail margin lending businesses from HSBC Saudi Arabia ("HSBC SA") to AI in September 2022, for which the Company's share capital was increased by SAR 440 million.

With the completion of the transfer, AI has gained significant scale for its business and broader scope of its operations; positioning the Company as one of the leading capital market institutions in the Kingdom. We are honored to welcome to AI, new clients joining our existing clients and we are grateful for the trust they have placed in our abilities to deliver on their needs and unique objectives. We are also very happy to welcome the team members who transferred from HSBC SA to join their colleagues at AI. With the team's wide expertise, talent and professionalism, I am confident AI will be in a unique position to deliver high standard services to its clients in a consistent and sustainable manner.

Despite a heavy focus on completing the transfer of businesses during 2022, our clients enjoyed a strong rate of return on their investment in most of our strategies with flagship public equity strategies generating no less than 14% excess returns relative to the performance of the market during the year. Furthermore, new features were introduced to our brokerage platform enabling our clients to open new accounts and renew KYCs digitally. This is the first wave of digital enhancements as part of AI's digital transformation with the aim of enhancing the experience of our valuable clients and equipping them with the necessary tools and functionalities to support their investment decisions.

The Company's financial performance started to reflect the positive impact of the transferred businesses generating SAR 108.3 million of operating income in 2022 compared to SAR 35.3 million in the prior year. On a post zakat and tax net income basis, AI generated a profit of SAR 40.0 million in 2022 compared to a net loss of SAR 56.3 million in the previous year with the change mainly coming from intangible gain on transferred businesses and year over year increase in operating income.

To set the strategic direction and position the firm for growth going forward, the Board of Directors has approved the five-year strategy for Alawwal Invest with execution starting from the beginning of year 2023. The strategy is ambitious and as AI delivers on its execution, the experience of our clients will be enhanced significantly, benefiting from our investment in making significant enhancement to our digital wealth and brokerage platforms and also benefiting from expanding asset management offerings in the public and alternative asset classes.

Finally, I want to again thank our clients for their trust and continued relationship. I want to thank the team for the hard work and dedication to serving our clients. My thanks also go to

CHAIRMAN'S MESSAGE

my colleagues on the Board of Directors for their commitment to and support of Alawwal Invest.

Khalid Al-Molhem
Chairman

MD & CEO's MESSAGE

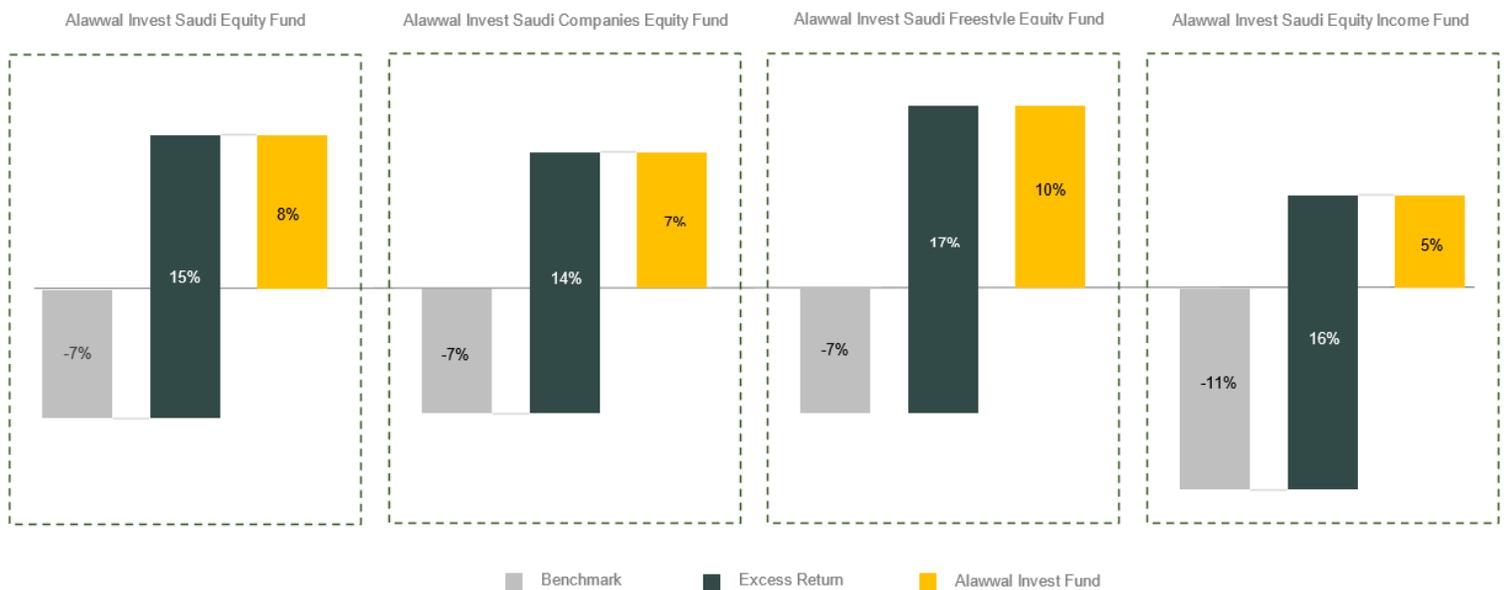


Year 2022 was an extraordinary year in the history of Alawwal Invest Company (“Alawwal Invest, “AI” or the “Company”) with the completion of the transfer of the asset management, retail brokerage and retail margin lending businesses from HSBC Saudi Arabia (“HSBC SA”) in September, a transaction that was funded in part by a share capital increase of SAR 440 million. As a result of this transfer (the “Business Transfer”), assets under management increased from SAR 1.8 billion in December 2021 to SAR 15.7 billion in December 2022.

Total traded volumes increased 13% in 2022 to reach SAR 32.3 billion and the margin lending book also grew from SAR 81 million to SAR 1,189 million during the year.

In the process of this transfer, we welcomed more than 100 thousand clients to Alawwal Invest across all of our business lines during the year. We were also thrilled to have close to 120 professionals of various expertise and backgrounds joining Alawwal Invest from HSBC SA to ensure continuous and smooth experience for our clients during and after the transfer process. With this significant growth in the business, Alawwal Invest is positioned today as one of the leading asset management and brokerage houses in the Kingdom with scale and resources.

While the transfer of business was the most significant activity carried out during the year, Alawwal Invest’s team remained focused on managing the assets of our clients, delivering an excess return of no less than 14% on its flagship public equity strategies relative to respective benchmarks during 2022.



MD & CEO's MESSAGE

Alawwal Invest recorded a net profit after zakat and income tax of SAR 40.0 million for the year ending 31 December 2022, compared to a SAR 56.3 million loss after zakat and income tax for the year ended 31 December 2021. The reason for the increase was due to the intangible gain of SAR 113.5 million and increase in revenues, both resulting from the Business Transfer. Alawwal Invest's operating income for the year 2022 was SAR 108.3 million compared to SAR 35.3 million for the year 2021, increased mainly due to the Business Transfer which caused a significant rise in business income.

With the completion of the business transfer in September, we shifted our focus to determine the strategic direction and shape the future of Alawwal Invest through a five-year strategic plan which was endorsed by our Board of Directors in December 2022. The strategy lays out a path to growth leveraging its existing resources, making new investments in technology and infrastructure and strengthening its collaboration framework with its parent bank, SABB.

While having a clear road map to achieve its strategic objectives, AI will remain agile to take advantage of emerging opportunities that arise along the way. The outcomes from executing our strategy should first and foremost enhance the experience of our clients through advanced digital wealth and brokerage platforms, expand our offerings by introducing new asset classes and provide access to unique global investment opportunities.

Year 2023 will be the first year of execution of AI's ambitious strategy which coincides with the significant economic transformation taking place in the Kingdom under Vision 2030. Such transformation is resulting in attractive investment opportunities in existing and new sectors and we are committed through AI's new strategy to structure and provide timely access for our clients to take advantage of such opportunities.

I am grateful to our Board of Directors for providing guidance and direction they provided for Alawwal Invest last year and their support during the coming years will make a significant difference in our journey. My colleagues at AI performed exceptionally well last year and with their expertise, intellect and drive, we will be able to deliver on our new strategy, positioning AI as the partner of choice for our clients for many years to come.

Finally, a big thanks to the Capital Market Authority and Saudi Tadawul Group for their leadership and undeterred drive in developing the capital market in the Kingdom and for creating a well governed and sound ecosystem for the industry.

Ali Al-Mansour
Managing Director & Chief Executive Officer



SECTION 1

OVERVIEW OF ALAWWAL INVEST

OVERVIEW OF ALAWWAL INVEST

Company Profile

Alawwal Invest Company (“Alawwal Invest”, “AI” or the “Company”) 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 The Saudi British Bank (“SABB”). AI is a Saudi One Person Closed Joint Stock Company with fully paid Capital of SAR 840,000,000 divided into 84,000,000 shares of SAR 10 each, which is fully paid and owned by SABB.

Alawwal Invest is staffed with a team of professionals having extensive experience in the field of Asset Management, Brokerage and Wealth Management. 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.

Business Activities

Alawwal Invest provides comprehensive range of products and financial services for institutions and individuals including Wealth Management, Brokerage and Asset Management. It aims to provide 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 experience in investment products and services. Its main activities are represented in the following securities business:

Asset Management

In September 2022, as part of the transfer agreement between Alawwal Invest and HSBC Saudi Arabia (“HSBC SA”), public funds and private funds and DPM mandates totalling to an AUM in excess of SAR 15 billion were transferred to Alawwal Invest. The Asset Management Department (“AMD”) continues to be resilient and deliver superior performance despite the challenges associated with such a significant transfer of business. This transfer should give the asset management business ‘direct’ access to the SABB distribution network, whilst retaining access to HSBC global resources.

The AMD offers clients a diverse range of conventional and Shariah compliant investment products within equities, fixed income, liquidity and alternative strategies.

Brokerage

Alawwal Invest’s Brokerage Department 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.

OVERVIEW OF ALAWWAL INVEST

In terms of 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 stocks listed on the Saudi Stock Exchange (“Tadawul”), ETF and Sukuk.

For clients who are dealing in international markets, Alawwal Invest’s Brokerage Department offers a full range of market leading brokerage services including execution, clearing and safekeeping. It also offers margin lending facilities to its customers to trade in local equities on Tadawul.

Wealth Management

Alawwal Invest offers a comprehensive range of products and financial services to Retail and Institutional clients; including Brokerage, Margin Lending and Asset Management. The Company aims to provide its clients with high quality of both conventional and Shariah-compliant suite of investment products and services that meet their particular requirements in terms of capital growth, financial goals and risk appetite.

The most recent transformation for the Company involving the transfer of certain businesses from HSBC SA to Alawwal Invest is only the latest testament to the Company’s appetite for growth and positive change.

Alawwal Invest, across all aspects of the organization, boasts heritage and pedigree spanning close to 100 years and continues to be pioneers within its industry to become the preferred one-stop-shop for all the wealth management needs of its clients.

Strategic Transaction

Following the execution of the business transfer agreement with HSBC SA on 18 May 2021 to purchase HSBC SA’s asset management, retail brokerage and retail margin lending businesses, the businesses were successfully transferred to Alawwal Invest in September 2022 (the “Strategic Transaction”).

As a result of the Strategic Transaction, the Company acquired eighteen public funds, along with several private funds and Discretionary Portfolio Management (“DPM”) mandates on the asset management side. On the retail brokerage side, the Strategic Transaction enabled the Company to increase its trading volume multi-fold while the retail margin lending book grew several fold in size.

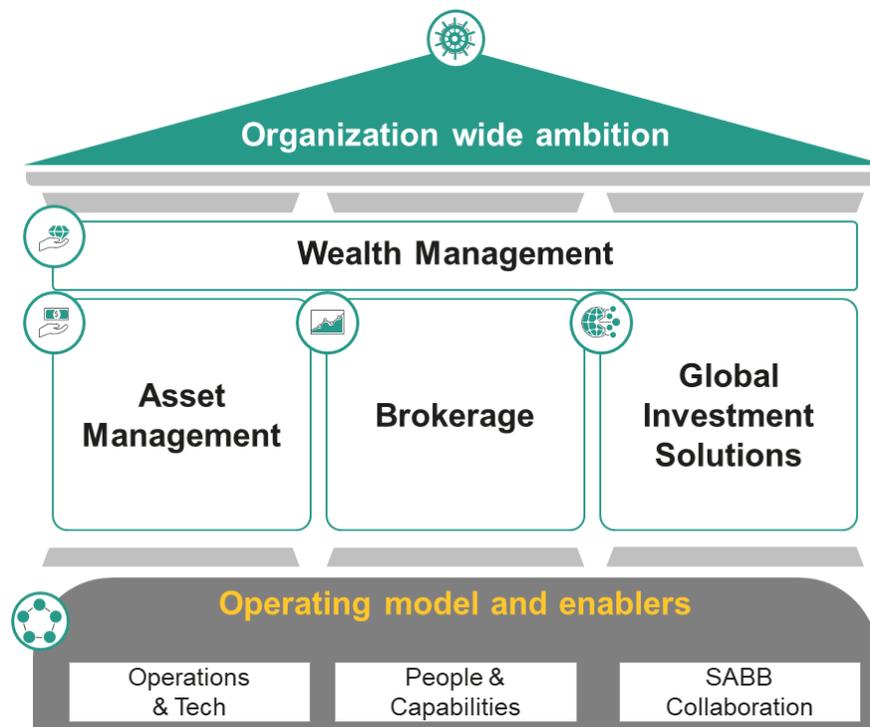
The Strategic Transaction also enabled the Company to acquire a vast base of valued customer relationships in all three lines of businesses. It also enabled the Company to welcome close to 120 experienced professionals to the Alawwal Invest family.

The Company increased its share capital by SAR 440 million in 2022 to SAR 840 million in order to aid in funding the transfer of the above businesses from HSBC SA and support its future growth.

OVERVIEW OF ALAWWAL INVEST

Future Strategy

During Q4 2022 the Company's management defined a 5-year growth and transformation roadmap aiming at positioning the Company as a top tier Capital Markets Institution in the Kingdom by 2027 (the "Strategy"). The Strategy builds upon the business scale, customer base and internal talent acquired through the Strategic Transaction closed in September 2022 (see above), combined with the deep customer knowledge and vast physical and digital distribution capabilities of SABB. The Strategy, together with its investment case, was endorsed by the Company's Board of Directors (the "Board of Directors" or the "Board") in December 2022.



The Strategy aims to achieve the organization's ambitions by enhancing and building the business at three levels:

- At the foundation of the Strategy is the operating model and its enablers being the Company's Operations and Technology architecture, its people & their capabilities and its collaboration with SABB
- On top of the foundation, the Strategy aims to build and enhance the service offerings across Asset Management, Brokerage and Global Investment Solutions
- Delivery of the enhanced products and services to a larger base of clients through world- class digital Wealth Management platforms would form the overarching layer of the Strategy

OVERVIEW OF ALAWWAL INVEST

People

Upon the announcement of the Strategic Transaction, Alawwal Invest initiated its People Strategy (the “People Strategy”) as human capital is the most critical resource of the Company and is at the heart of the success of the Strategic Transaction and the Company’s future growth.

The People Strategy focused on the integration of the human capital of Alawwal Invest with that of the incoming team from HSBC SA, by identifying the direct reports of the Chief Executive Officer (“CEO”) and future leaders, initiating efforts to retain talent and for talent development & succession and aligning compensation and benefits.

The Company appointed a third party for the identification of the CEO’s direct reports and future leaders, which leveraged on the third party’s financial services job database as a standard to understand the career history of each candidate and map the roles to a common platform for comparison, which can help in arriving at an opinion/judgement on the best candidate profile to fill each role.

Prior to the completion of the Strategic Transaction, the Company set up a one-stop shop to deliver a smooth transition and world-class human resources services to the incoming employee team for collection of their computing equipment right from their very first day at Alawwal Invest. Within one month of completing the transition, the alignment of job titles and organization structure was completed.

The Company’s aim is to be an employer of choice and the best place to work by applying our behavioral objectives, BE INNOVATIVE, DO THE RIGHT THING, THINK “CUSTOMER” and WORK TOGETHER.

Among the Company’s priorities, is the ambition to create an environment that improves the health and happiness of its human capital and the people they serve so that employees feel safe, supported and engaged as it increases the Company’s ability to serve its customers, shareholder, regulators, suppliers and communities.

Another of the Company’s priorities is to align the goals of its employees with the Company’s own goals and to build a culture of high performance and to have a strategic partnership with employees in order to support the pillars of Vision 2030.

In 2023, the Company plans to introduce a Graduates Programme to build a Saudi talent pool of fresh graduates.

Gender Diversity is also one of the Company’s areas of focus as a result of which, the ratio of women in the Company’s employee base has improved from 16% in 2021 to 25% in 2022. Nationalization continues to remain a priority for the Company and has helped it in improving the Company’s Saudization ratio from 71% in 2021 to 85% in 2022.



SECTION 2

ECONOMIC BACKDROP

ECONOMIC BACKDROP

Global Economic Landscape in 2022

Macroeconomic Landscape 2022

Despite areas of recovery post the COVID-19 Pandemic, 2022 faced several headwinds, including the Russian war against Ukraine, supply chain issues, lockdown in China, and escalated inflation rates to the highest levels in decades, inflicting significant pressure on cost of living in most countries. IMF estimates 2022 Global GDP to have grown by 3.4%, slowing down from 6.1% growth in 2021.

So far 2022 has witnessed significant slowdowns for the biggest economies, with contraction in GDP in USA and Europe. In addition, the strict zero-COVID policy in China, resulted in series of outbreaks and lockdowns in the country, suppressing that region's growth.

Countries have started to implement tightening monetary and fiscal policies in order to cool demand and inflation, which has reached its peak post 3Q 2022.

Oil Dynamics in 2022

During 2022, Brent crude futures averaged USD 99 per barrel, showing an increase of around 40% in comparison to 2021.

Crude oil prices increased during much of 2022 as supply was constrained by Russia's invasion of Ukraine, output cuts by OPEC+ members, and a rebound in fuel demand for transportation.

In March, as Russia invaded Ukraine, Brent crude futures soared above USD 120 per barrel.

As the year went by, both U.S. and Brent crude futures have declined to USD 90 levels due to lower demand from China, as a result of their Zero-Covid policies reducing their industrial and economic output. In addition to lower demand from China, central banks implemented a series of interest rate hikes to cool off the economy and the labor market in order to combat rising inflation throughout the world.

Equities Market

Global equity market (MSCI World) showed a strong drop of -18.1% during 2022 compared to 2021, which made 2022 one of the worst performance years since the 2008 crisis, with investors' major concern circling around interest rate hikes, China's Covid surge and more tech tantrums.

China (MSCI) ended the year down by 21.9%, one of the worst performers in equity markets, followed by S&P 500 index which lost more than 19% of its value during the year. Euro Stoxx 50 Index showed a decline of 11.7%, while the MSCI EM Index showed a drop

ECONOMIC BACKDROP

of more than 20%. On the green side, only FTSE 100 (UK) showed a slight increase of 0.9%.

Investors entered 2023 awaiting positive signs of moderating inflation along with better-than-expected corporate earnings and GDP.

KSA Economic Landscape in 2022

Macroeconomic Landscape 2022

The Ministry of Finance of Saudi Arabia has estimated the Kingdom's real GDP growth for 2022 to be at 8.5%, which makes Saudi Arabia, according to IMF, one of the world's fastest growing economies in 2022.

Non-oil GDP is expected to have grown by 5.9%, supported by revival of social activities, and growth in wholesale and retail trade.

Economic growth during the year was supported by both oil and non-oil GDP, as the Kingdom continues its progress of implementing Vision 2030 programs and initiatives, through enhancing investments, supporting industries, and materializing the vital role of the Public Investment Fund ("PIF").

Saudi Arabia Fiscal Performance

The government of Saudi Arabia achieved during 2022, revenue of SAR 1,234 billion, and SAR 1,132 billion expenditure, registering, for the first time since 2013 fiscal surplus of SAR 102 billion.

Revenue achieved was 18% higher than what was budgeted, supported by better oil prices and higher oil exports. The government utilized the stronger revenue as it increased expenditure to SAR 1,132 billion, or 19% higher than its initial budget.

TASI Performance

TASI closed 2022 at 10,487 level, losing 803.25 points over the year decreasing by 7.1% compared to 2021, and losing 3,342 points from its record high during the year of 13,820 points, which was on 8 May 2022.

Out of 21 industry groups, 18 industries closed in the red with Pharma, Biotech & Life Science, Consumer Durables & Apparel and Capital Goods delivering the worst performance of -44.6%, -33.5%, and -30.7% respectively. On the other hand, 3 industries closed in green of 25.3%, 24.6%, and 20.9%, which are Software & Services, Health Care Equipment & Services and Utilities, respectively.

The total market capitalization at the end of the year reached SAR 9,878 billion (USD 2,634 billion), decreasing by 1.3% compared to the end of the previous year.

ECONOMIC BACKDROP

Value of share traded in 2022 came in at SAR 1,708 billion (USD 455.5 billion) recording a decrease of 23.6% on a yearly basis, while the decline in number of transactions was 4.3%, where transactions reached 87.9 million during the year.

The Materials industry led the market in term of value traded during the year amounting to SAR 406.4 billion that represent 23.8% of the total value traded, followed by the Banks industry group with SAR 371.6 billion, that represent 21.8%, and Energy industry group SAR 120.4 billion or 7.1% of the total value traded during the year.

The market welcomed 18 IPOs during the year 2022. As a result, the total number of listed companies reached 223 at the end of 2022, compared to 210 in the previous year.

The total offered value reached SAR 37.5 billion and the year ended with market capitalization of all IPOs at SAR 147.3 billion that represent 1.5% of the total market capitalization.

Economic Outlook for 2023

Global Economic Outlook 2023

The IMF is projecting Global GDP growth to slow down from its estimated 3.4% in 2022 to 2.9% in 2023, representing a marginal increase to its previous forecast published in October 2022. China reopening is the main supporter for economic recovery.

The decline in estimated GDP growth in 2023 vis a vis 2022 is driven by advanced economies, with the tightening policies that commenced in 2022, achieving larger impact in 2023.

Advanced economies are projected to register 1.2% GDP growth in 2023, compared to 2.7% in 2022. On the other hand, emerging and developing economies are expected to grow by 4% in 2023, representing modest improvement from 2022 GDP growth of 3.9%

Inflation is expected to soften from 8.8% in 2022 to 6.6% in 2023, based on the IMF, as all nations strive to curb down the elevated cost of living, focusing their fiscal and monetary policies to target the elevated food and energy prices.

Saudi Arabia Economic Outlook 2023

The Saudi Ministry of Finance projects Saudi real GDP to grow by 3.1% in 2023, supported by the private sector, as the reforms that took place several years ago continue to materialize, resulting in increase in labor participation, improvement in employment rates, higher injections from investments, and local content enforcement.

The IMF expects Saudi economy to soften its GDP growth in 2023 to 2.6%, from 8.7% in 2022, mainly due to lower oil production, following OPEC+ decision in October 2022 to cut output by 2 million barrels per day.

ECONOMIC BACKDROP

Non-oil GDP will continue its upward trajectory, supported by the country's efforts to strengthen and sustain non-oil activities and Vision 2030's strategy to contain oil proceeds and create more sustainable expenditure structure that is not oil-driven.

The IMF expects inflation to remain under control as SAMA increases its Repo rates in line with US Federal Reserve.

Saudi Arabia Budget 2023

The government of Saudi Arabia announced expansionary budget for the fiscal year 2023, where the main focus is to maintain a balance between fiscal sustainability and accelerating economic growth, while continuing at the same time, to improve expenditure efficiency and effectiveness.

The public finances structure in Saudi Arabia has been developed through two phases. The first phase, which has been completed, was to contain the fiscal deficit in the medium term. The second phase, launched under Fiscal Sustainability Program ("FSP"), focuses on structuring expenditure and directing it to meet Vision 2030.

Revenue is expected to reach SAR 1,130 billion in 2023, while total expenditure is budgeted at SAR 1,114 billion, hence implying an expected surplus of SAR 16 billion or around 0.4% of GDP.



SECTION 3

2022 PERFORMANCE HIGHLIGHTS

2022 PERFORMANCE HIGHLIGHTS

Asset Management

Overview of Funds

Saudi Equity Funds

- 1- Alawwal Invest Saudi Equity Fund
- 2- Alawwal Invest Saudi Companies Equity Fund
- 3- Alawwal Invest Saudi Freestyle Equity Fund
- 4- Alawwal Invest Saudi Equity Income Fund
- 5- Alawwal Invest Financial Institutions Fund
- 6- Alawwal Invest Saudi Industrial Companies Equity Fund
- 7- Alawwal Invest Saudi Construction and Cement Companies Equity Fund
- 8- Saudi Equity Fund
- 9- Al Yusr Saudi Equity Fund
- 10- Saudi Financial Institutions Fund

Money Market & Fixed Income Funds

- 1- Alawwal Invest Saudi Riyal Murabaha Fund
- 2- Alawwal Invest US Dollar Murabaha Fund
- 3- Alawwal Invest Sukuk Fund
- 4- Saudi Riyal Money Market Fund
- 5- Al Yusr SAR Murabaha Fund
- 6- Al Yusr Murabaha & Sukuk Fund

Multi-asset Funds

- 1- Alawwal Invest Multi Assets Defensive Fund
- 2- Alawwal Invest Multi Assets Balanced Fund
- 3- Alawwal Invest Multi Assets Growth Fund

GCC & International Funds

- 1- Alawwal Invest Global Equity Index Fund
- 2- Alawwal Invest GCC Equity Fund
- 3- Alawwal Invest China and India Equity Freestyle Fund
- 4- Alawwal Invest GCC Equity Income Fund
- 5- GCC Equity Fund

ETF

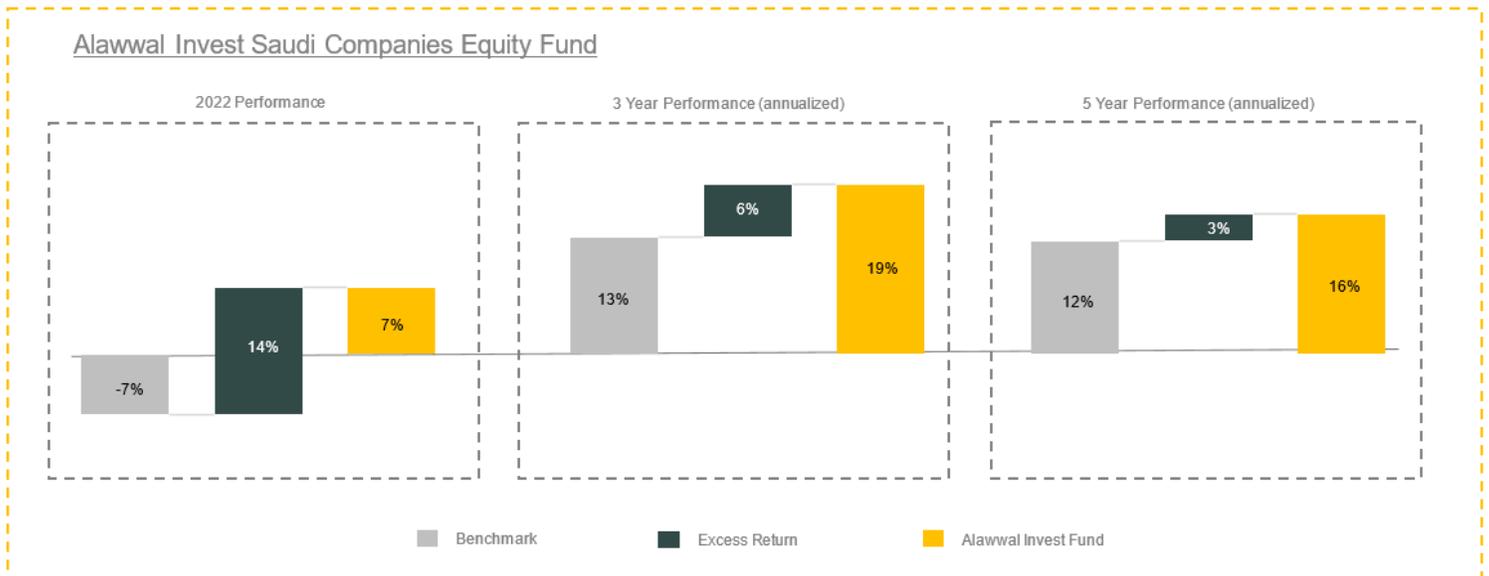
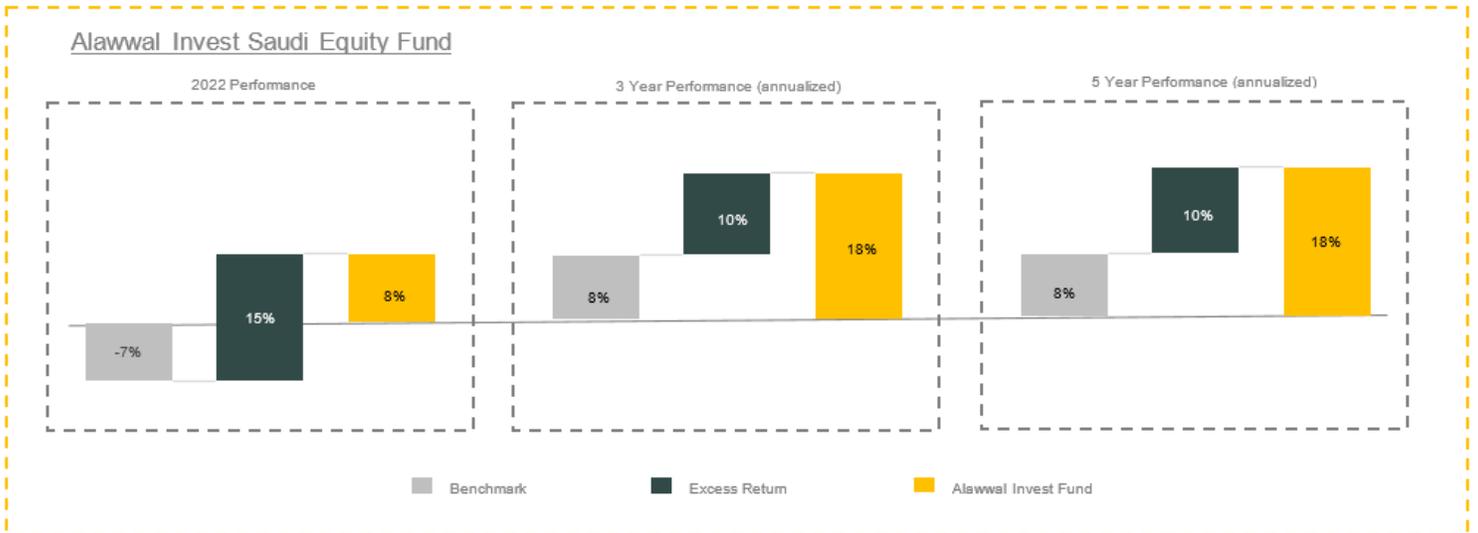
- 1- Alawwal Invest MSCI Tadawul 30 Saudi ETF

Overview of 2022 Performance

Alawwal Invest has the most diverse range in terms of local market public equity funds and ranks number 2 in that category in terms of Assets Under Management (“AUM”) with a market share of 18% as at the end of 31 December 2022. Alawwal Invest’s flagship funds continue to deliver top quartile performance. Alawwal Invest had AUM of SAR 15.8 billion as at the end of December 2022 (SAR 1.8 billion as at the end of 31 December 2021).

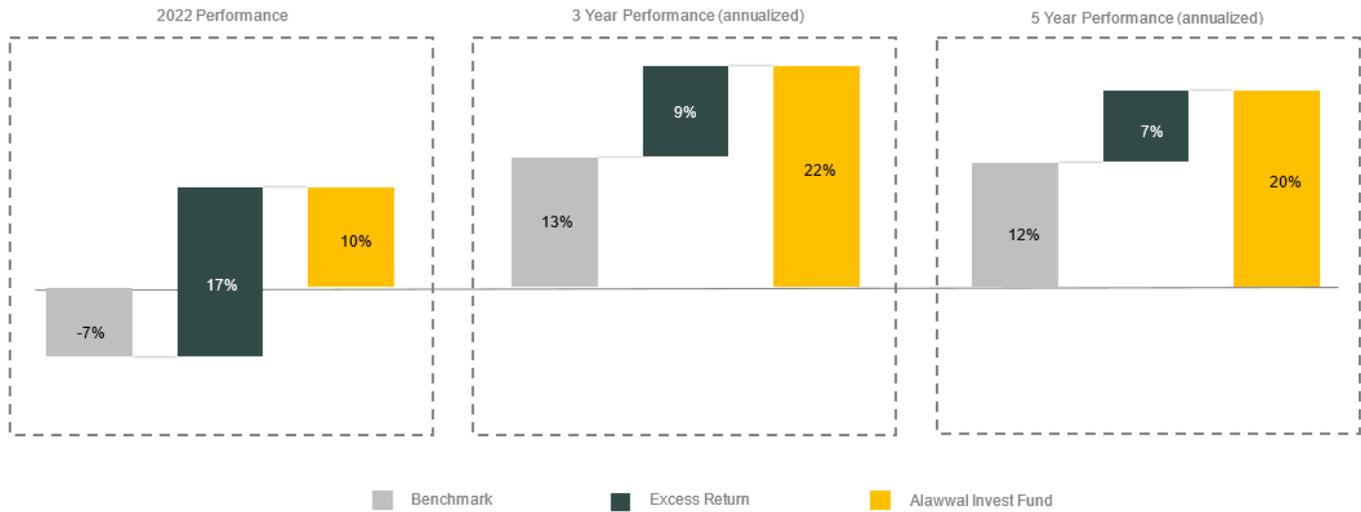
2022 PERFORMANCE HIGHLIGHTS

Flagship Funds' Performance

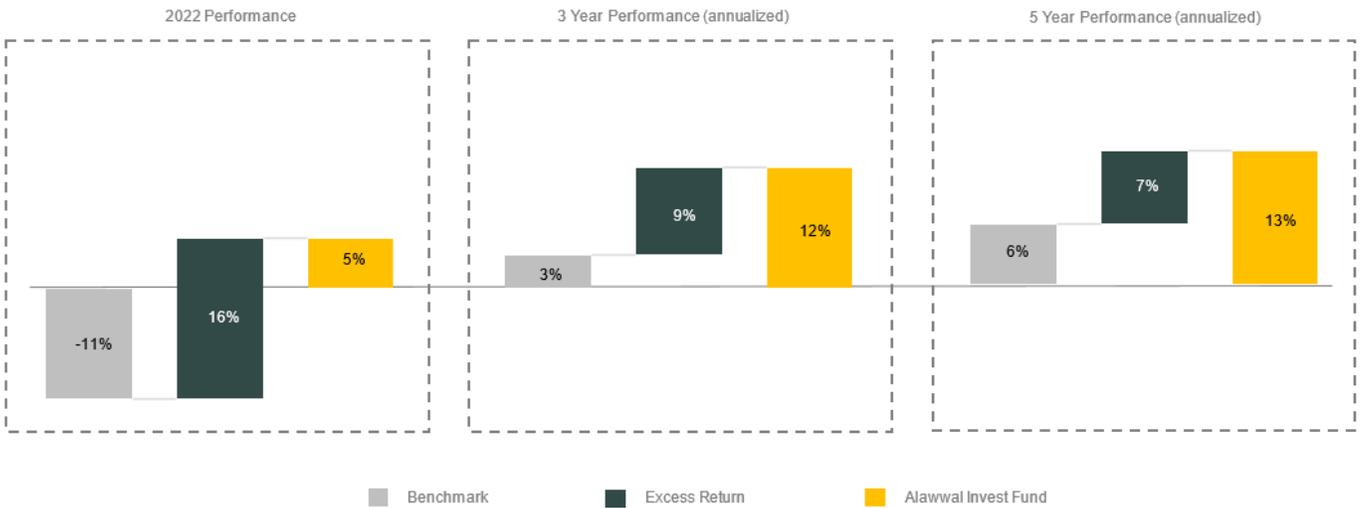


2022 PERFORMANCE HIGHLIGHTS

Alawwal Invest Saudi Freestyle Equity Fund



Alawwal Invest Saudi Equity Income Fund



2022 PERFORMANCE HIGHLIGHTS

Awards received

- Refinitiv Lipper Fund Awards:
 1. Alawwal Invest Multi-Assets Defensive Fund, Best Fund over 3 years mixed asset other conservative.
 2. Alawwal Invest Multi-Assets Growth Fund, Best Fund over 3 years mixed asset other aggressive.
 3. Alawwal Invest Multi-Assets Defensive Fund, Best Fund over 5 years mixed asset other conservative.
 4. Alawwal Invest Multi-Assets Growth Fund, Best Fund over 5 years mixed asset other aggressive.
 5. Alawwal Invest Multi-Assets Balanced Fund, Best Fund over 10 years mixed asset other balanced.

- Argaam Awards:
 1. Alawwal Invest Saudi Financial Institutions Equity Fund was the top performer among TIER I funds 2021, with net assets under management (AUM) of more than SAR 100 million
 2. Saudi Financial Institutions Equity Fund was the top performer among TIER II funds 2021, with AUM of less than SAR 100 million
 3. Alawwal Invest Saudi Financial Institutions Equity Fund was the top performer (five years' term) among TIER I funds, with AUM of more than SAR 100 million

- Sanadeq Investment Funds Awards:
 1. Alawwal Invest MSCI Tadawul 30 Saudi ETF, best Investment return award for ETFs in Saudi financial market in 2021.
 2. Alawwal Invest Multi-Assets Growth Fund, best performance investment fund award in the multi-asset investment fund category in 2021.

Business Outlook for 2023

The asset management industry is expected to continue benefiting from the favorable macro environment provided by the Vision 2030's Financial Sector Development Program. In light of that backdrop, our focus for the medium-term is to align Asset Management Business with Alawwal Invest's five-year transformation strategy. Our goals include achieving the targeted position in terms of revenue and AUM, becoming a differentiated Asset Manager, leveraging technology and the distribution capabilities of SABB as well as enhance product offerings.

2022 PERFORMANCE HIGHLIGHTS

Brokerage

Overview of 2022 Performance

Alawwal Invest's total value of shares traded for the year 2022 reached SAR 32.3 billion, an increase of 13.0% relative to the previous year. The total number of transactions executed during 2022 reached around 1,521 thousand compared to around 875 thousand transactions for the previous year, an increase of 73.9%.

Alawwal Invest's online total value of shares traded for 2022 reached SAR 20.0 billion compared to SAR 17.8 billion for the previous year, an increase of 12.3%. Alawwal Invest's online channels have contributed 62.0% of Alawwal Invest's total value traded in 2022 compared to 62.4% in the previous year.

Alawwal Invest's total value traded in International Markets and Fixed Income reached SAR 863 million (USD 230.2 million) in 2022 compared to SAR 460 million (USD 122.7 million) for the previous year, representing an increase of 87.6%.

Business Outlook for 2023

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; and
- Automating all brokerage functions and services requirements end-to-end.

Wealth Management

Overview of 2022 Performance

In 2022, with the acquisition of the certain businesses from HSBC SA, our product offering improved on all fronts. Mutual funds catalogue increased from 7 to 25, while DPMs, margin lending clientele and active trades recorded significant increases.

The active customer base increased to over 61,000 clients in December 2022. Collaboration initiatives with SABB are in full swing in order to capitalize on their vast network and customer base and increase Alawwal Invest's client base.

Business Outlook for 2023

One of the main strategic objectives of this department is to be digitally sophisticated by having state of the art interactive platforms. The target is to have one single platform, to serve all client needs, which is state of the art, user friendly, and compliant with local regulations. End-to-end customer journey will be a key focus area for this platform starting

2022 PERFORMANCE HIGHLIGHTS

from on-boarding, giving them basic understanding of the products, benefits and risks. This will be complemented by our Robo advisory offering, subject to regulatory guidelines.

The benefit of digitizing and automation is to leverage data and use analytics to support customers on suitable products to meet their investment objectives within the investment horizon and according to their risk appetite. By automating, the target is to achieve scale and hence offer portfolio rebalancing for a larger client base with a lower investment size threshold based on data gathered on investment objectives and risk appetites.

The plan is to also offer more products that require digitization such as systematic investment plans where customers invest fixed frequent amounts, in line with Saudi Vision 2030 objectives to increase saving and investing. Another element of the plan is to collaborate with SABB and leverage on data analytics to identify and segment customers accurately and better serve them through digital means.

Corporate

5 year Financial Highlights

| SAR '000s | 2022 | 2021 | 2020 | 2019 | 2018 |
|-------------------------------------------------|-----------|----------|----------|----------|----------|
| Investments | 192,690 | 124,259 | 123,041 | 121,588 | 118,651 |
| Loans and advances* | 1,189,326 | 80,973 | 164,462 | 143,627 | 246,650 |
| Total assets | 2,070,336 | 679,666 | 734,210 | 724,156 | 807,274 |
| Total liabilities | 1,128,442 | 217,112 | 216,242 | 190,891 | 272,222 |
| Shareholders' equity | 941,894 | 462,554 | 517,968 | 533,265 | 535,052 |
| Operating income | 108,258 | 35,274 | 40,166 | 43,395 | 54,098 |
| Non-operating gain** | 113,500 | - | - | - | - |
| Operating expenses | (167,247) | (82,137) | (37,339) | (39,909) | (43,634) |
| Net (loss) / income before zakat and income tax | 54,511 | (46,863) | 2,827 | 3,486 | 10,464 |
| Net (loss) / income after zakat and income tax | 40,011 | (56,273) | (15,290) | (4,229) | 2,848 |

* Relates to margin lending portfolio

** Non-operating gain includes valuation gain on business transfer from HSBC SA

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.

Financial Performance in 2022

Alwwal Invest recorded a net profit after zakat and income tax of SAR 40.0 million for the year ended 31 December 2022, compared to SAR 56.3 million loss after zakat and income tax for the year ended 31 December 2021. The reason for the increase was due to the gain on bargain purchase of SAR 113.5 million and increase in revenues, both resulting from the Strategic Transaction. Alwwal Invest's operating income for the year 2022 was SAR 108.3

2022 PERFORMANCE HIGHLIGHTS

million compared to SAR 35.3 million for the year 2021, increased mainly due to the Strategic transaction which caused a significant rise in business income.

Margin lending income increased by SAR 26.4 million mainly due the Strategic Transaction transfer and rising interest rates. Income from asset management increased by SAR 36.4 million mainly due to the investment funds transferred from HSBC SA. The operating expenses increased by SAR 85.1 million mainly due to staff cost, special commission on short term borrowings and Integration expense for transferring the business from HSBC SA.

2022 Year End Balance Sheet

Total assets of the Company were SAR 2,070 million at 31 December 2022, compared with SAR 680 million at 31 December 2021, an increase of SAR 1,390 million. The rise in balance sheet was mainly due to increase in margin lending portfolio from SAR 81 million in 2021 to SAR 1,189 million in 2022 and an increase of margin deposit with clearing house of SAR 43.7 million, along with the recognition of intangible assets of SAR 230 million.

The Company's total investments in Alawwal Invest's investment funds were SAR 193 million, of which investments held at fair value through profit or loss was SAR 42 million, investment held at fair value through comprehensive income was SAR 50 million and investments held at amortized cost was SAR 101 million. Total assets were partially offset by a decrease in cash and cash equivalents by SAR 9 million, and decrease in time deposit by SAR 107 million.

Loans & Shareholders' Equity

The Company has the following 12-month, revolving and renewable facilities from SABB:

| S. no. | Nature of facility | Purpose of facility | Limit amount (SAR million) | Utilization amount as at 31 December 2022 (SAR million) | Utilization amount as at 31 December 2021 (SAR million) |
|--------|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|---------------------------------------------------------|---------------------------------------------------------|
| 1 | Overdraft | To finance the margin lending business | 2,600 | 833 | 81 |
| 2 | Overdraft | To meet margin calls from Securities Clearing Center Company ("Muqassa"), settlement obligations with Securities Depository Center Company ("Edaa") and the liquidity requirements of AMD | 500 | - | - |
| 3 | Letter of Guarantee | To enable issuance of guarantees to the Zakat, Tax and Customs Authority ("ZATCA") | 20 | - | - |
| 4 | Hedging | For foreign exchange contracts | 5 | - | - |

2022 PERFORMANCE HIGHLIGHTS

Shareholders' equity increased by SAR 479 million due to a rise of share capital from SAR 400 million in 2021 to SAR 840 million in 2022 along with the positive impact of SAR 39.3 million in retained earnings and reserve.



SECTION 4

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Governance Principles

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.

Board of Directors

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.

Profile of Board Members

The Board of Directors of the Company as at 31 December 2022 comprised eight (8) members, of whom three (3) are independent members.

| | Board Member Name | Classification | Effective date of Appointment | Name(s) of other companies in which he was a member of the Board of Directors as at 31 st December 2022 |
|---|--------------------------|----------------------------|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Mr. Khalid Al-Molhem | Chairman, Non-Executive | 14 June 2020 | 1. Riyadh Cement 2. Kidana Company for Development 3. Qiddiyah West Company |
| 2 | Mr. Omar Al-Hoshan | Vice-Chairman, Independent | 14 June 2020 | 1. Abu Nayyan Holding Company 2. The Saudi Investment Recycling Company 3. Trans Gulf Marketing Company |
| 3 | Mr. Salman Al-Deghaither | Independent | 14 June 2020 | 1. None |
| 4 | Mr. Abdulaziz Al-Bassam | Independent | 27 April 2022 | 1. Sulaiman Al Rajhi Holding Company 2. Pergola Investment 3. Beech Design and Development 4. Beach Holdings Investment 5. Al Jomaih Power and Energy 6. Aldara Real Estate Development 7. Khebrat AlA'mal 8. Ataa Almohamadia 9. ANB Capital |
| 5 | Mr. Tony Cripps | Non-Executive | 31 March 2022 | 1. HSBC SA 2. SABB |
| 6 | Mr. Yasser Al-Barrak | Non-Executive | 5 May 2022 | 1. None |
| 7 | Mr. Bandar Bin Ghashyan | Non-Executive | 10 August 2022 | 1. Saudi Credit Bureau ("SIMAH") |
| 8 | Mr. Ali Al-Mansour | Managing Director | 31 March 2022 | 1. Al Rajhi Takaful |

CORPORATE GOVERNANCE

Board Meetings

The Board of Directors held five (5) meetings during 2022 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 | 27 January 2022 [#] | 5 | 5 | 100% | Mr. Khalid Al-Molhem Mr. Omar Al-Hoshan Mr. Salman Al-Deghaither Ms. Maha Al-Sudairi Mr. Bashaar Al-Qunaibit | Not Applicable |
| 2 | 31 March 2022 | 5 | 5 | 100% | Mr. Khalid Al-Molhem Mr. Omar AlHoshan Mr. Salman Al-Deghaither Ms. Maha Al-Sudairi Mr. Bashaar Al-Qunaibit | Not Applicable |
| 3 | 23 June 2022 | 7 | 7 | 100% | Mr. Khalid Al-Molhem Mr. Omar Al-Hoshan Mr. Salman Al-Deghaither Mr. Abdulaziz Al-Bassam Mr. Tony Cripps Mr. Yasser Al-Barrak Mr. Ali Al-Mansour | Not Applicable |
| 4 | 27 October 2022 | 8 | 8 | 100% | Mr. Khalid Al-Molhem Mr. Omar Al-Hoshan Mr. Salman Al-Deghaither Mr. Abdulaziz Al-Bassam Mr. Tony Cripps Mr. Yasser Al-Barrak Mr. Bandar Bin Ghashyan Mr. Ali Al-Mansour | Not Applicable |
| 5 | 19 December 2022 | 8 | 8 | 100% | Mr. Khalid Al-Molhem Mr. Omar Al-Hoshan Mr. Salman Al-Deghaither Mr. Abdulaziz Al-Bassam Mr. Tony Cripps Mr. Yasser Al-Barrak Mr. Bandar Bin Ghashyan Mr. Ali Al-Mansour | Not Applicable |

[#]The meeting held on 27 January 2022 was also included in the Board of Directors' report of 2021. A meeting was held on 26 January 2023, the details of which would be included in the Board of Directors' report of 2023. This change in reporting of meetings held is being made to report meetings held in each year's Board of Director's report based on the date of holding the meeting (irrespective of the agenda).

Board Members who resigned during 2022

Ms. Maha Al-Sudairi and Mr. Bashaar Al-Qunaibit resigned from their membership of the Board of Directors during 2022.

CORPORATE GOVERNANCE

Board Committees

The Board has established 3 Sub committees:

- Audit Committee
- Nomination and Remuneration Committee
- Board Risk and Compliance Committee

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.

Audit Committee

Overview

The Audit Committee reports directly to the Board of Directors. The committee meets at least four times during the year and the Chair report matters of significance to the Board. The detailed roles and responsibilities of the audit committee are set out in its terms of reference.

The responsibilities of the Audit Committee include:

- Review effectiveness of internal controls and compliance functions;
- Review annual financial statements in line with accounting and financial reporting standards;
- Ensure independence and evaluate performance of Internal Audit Function (the Chief Internal Auditor directly reports to the Chair of the Audit Committee);
- Oversee the work of the external auditor and approve all auditing and permitted non-audit services performed by external auditor;
- Receive internal audit reports and external auditor's management letter and recommend to the management, the established controls required to reduce risk exposure; and
- Report regularly to Board of Directors on issues arising from internal and external audits.

On 14 June 2020, the Ordinary General Assembly of Alawwal Invest approved the formation of the Audit Committee for a term of three years and SABB approved the appointment of the three Audit Committee member. On 27 June 2021, the Ordinary General Assembly of the Company approved the appointment of an additional member.

CORPORATE GOVERNANCE

Audit Committee Members

As at 31 December 2022, the Audit Committee is composed of four members, three of who are independent and one is non-executive member as shown below:

| | Member Name | Classification |
|---|----------------------------|---------------------------------------------------------|
| 1 | Mr. Omar Al-Hoshan | Chairman & Independent Member of the Board of Directors |
| 2 | Mr. Abdurahman Al-Zoghaibi | Member |
| 3 | Mr. Osama Al-Hodaithi | Member |
| 4 | Ms. Lama Ghazzaoui | Member |

Audit Committee Meetings

The dates of the Audit Committee meetings and the attendance during 2022 were as follows:

| | Date of Meeting | Total Strength | Number of Attendees | Percentage Attendance | Members Attended | Members who did not attend and provided proxies |
|---|-----------------|----------------|---------------------|-----------------------|-------------------------------------------------------------------------------------------------|-------------------------------------------------|
| 1 | 9 January 2022* | 4 | 4 | 100% | Mr. Omar Al-Hoshan Mr. Abdurahman Al-Zoghaibi Mr. Osama Al-Hudaithi Ms. Lama Ghazzaoui | Not applicable |
| 2 | 23 March 2022 | 4 | 4 | 100% | Mr. Omar Al-Hoshan Mr. Abdurahman Al-Zoghaibi Mr. Osama Al-Hodaithi Ms. Lama Ghazzaoui | Not applicable |
| 3 | 8 June 2022 | 4 | 3 | 75% | Mr. Omar Al-Hoshan Mr. Abdurahman Al-Zoghaibi Mr. Osama Al-Hodaithi | Ms. Lama Ghazzaoui |
| 4 | 5 October 2022 | 4 | 4 | 100% | Mr. Omar Al-Hoshan Mr. Abdurahman Al-Zoghaibi Mr. Osama Al-Hudaithi Ms. Lama Ghazzaoui | Not applicable |
| 5 | 1 December 2022 | 4 | 4 | 100% | Mr. Omar Al-Hoshan Mr. Abdurahman Al-Zoghaibi Mr. Osama Al-Hodaithi Ms. Lama Ghazzaoui | Not applicable |

* The meeting held on 9 January 2022 was also included in the Board of Directors' report of 2021. This change in reporting of meetings held is being made to report meetings held in each year's Board of Director's report based on the date of holding the meeting (irrespective of the agenda).

Audit Committee Members Who Resigned in 2022

There were no members of the Audit Committee who resigned during 2022.

CORPORATE GOVERNANCE

Nomination & Remuneration Committee (“NRC”)

Overview

The Board of Directors of Alawwal Invest has delegated the responsibility to the NRC for:

- Leading the process for appointments on the Board of Directors and for identifying and nominating candidates for appointment to the Board of Directors to be approved by the Board of Directors;
- Overseeing and monitoring the corporate governance framework of the Company and making recommendations to the Board of Directors to ensure that the framework is consistent with best corporate governance standards and practices;
- Setting the principles, parameters and governance framework of the Company’s remuneration policy; and
- Determining the remuneration of non-executive Directors, executive Directors, CEO / Managing Director and the direct reports of the CEO.

The Company’s Ordinary General Assembly shall approve the Terms of Reference of the NRC pursuant to which the NRC will be formed by the resolution of the Board of Directors.

NRC Members

The NRC (including the Chairman) comprises of non-executive directors and members who are not on the Company’s Board of Directors provided that no executive director shall be appointed as a member of the Committee. The Chairman of the Committee shall be an independent member of the Board of Directors.

As at 31 December 2022, the NRC comprised the following members:

| | Member Name | Classification |
|---|--------------------------|---------------------------------------------------------|
| 1 | Mr. Salman Al-Deghaither | Chairman & Independent Member of the Board of Directors |
| 2 | Mr. Ahmed Al-Naeem | Member |
| 3 | Mr. Nawaf Al-Hsseni | Member |
| 4 | Ms. Rania Al-Sharyoufi | Member |

NRC Meetings

The dates of the NRC meetings and the attendance during 2022 were as follows:

| | Date of Meeting | Total Strength | Number of Attendees | Percentage Attendance | Members Attended | Members who did not attend and provided proxies |
|---|-----------------|----------------|---------------------|-----------------------|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| 1 | 9 June 2022 | 4 | 4 | 100% | 1. Mr. Salman Al-Deghaither 2. Mr. Ahmed Al-Naeem 3. Mr. Nawaf Al-Hsseni 4. Ms. Rania Al-Sharyoufi | Not Applicable |
| 2 | 17 October 2022 | 4 | 4 | 100% | 1. Mr. Salman Al-Deghaither 2. Mr. Ahmed Al-Naeem 3. Mr. Nawaf Al-Hsseni 4. Ms. Rania Al-Sharyoufi | Not Applicable |

CORPORATE GOVERNANCE

NRC Members Who Resigned in 2022

There were no members of the NRC who resigned during 2022.

Board Risk & Compliance Committee (“BRCC”)

Overview

The BRCC is the designated committee of the Board of Directors and governing body for risk matters. It has the responsibility for the oversight of risk management, risk governance and internal control systems. It provides advice to the Board of Directors on all key and emerging risks to the firm, it sets the risk appetite and approves the compliance program, the appointment of senior executives and the risk strategy.

The BRCC has established a Risk and Compliance Management Committee (“RCMC”) which acts as the compliance committee as per CMA requirements and for which the CEO, Head of Compliance and Money Laundering Reporting Officer (“MLRO”) are required to be members and attend in order to formalize decisions on compliance matters. However, based on recent directions of the Board of Directors, a new Compliance Committee (Management Committee reporting to the Board) is being established that will serve as the governance body for Regulatory and Financial Crime risks and will provide recommendations and advice to the Board of Directors on enterprise-wide management of regulatory and financial crime risks, including key policies and frameworks for the management of regulatory and financial crime risks within the firm.

BRCC Members

As at 31 December 2022, the Committee consisted of four (4) members as shown below:

| | Member Name | Classification |
|---|--------------------|-----------------------|
| 1 | Mr. Khalid Ismail | Chairman |
| 2 | Mr. Ali Al-Qahtani | Member |
| 3 | Ms. Shaima Khan | Member |
| 4 | Mr. Ali Al-Mansour | Member |

CORPORATE GOVERNANCE

BRCC Meetings

There were four (4) meetings of the BRCC held during the calendar year 2022 as listed below:

| | Date of Meeting | Total Strength | Number of Attendees | Percentage Attendance | Members Attended | Members who did not attend and provided proxies |
|---|------------------------------|----------------|---------------------|-----------------------|-------------------------------------------------------------------------------------|-------------------------------------------------|
| 1 | 13 January 2022 [#] | 4 | 4 | 100% | Ms. Maha Al-Sudairi Ms. Shaima Khan Mr. Fahad Abalkhail Mr. Ali Al-Mansour | Not applicable |
| 2 | 23 March 2022 | 4 | 4 | 100% | Ms. Maha Al-Sudairi Ms. Shaima Khan Mr. Fahad Abalkhail Mr. Ali Al-Mansour | Not applicable |
| 3 | 9 June 2022 | 4 | 4 | 100% | Ms. Maha Al-Sudairi Ms. Shaima Khan Mr. Fahad Abalkhail Mr. Ali Al-Mansour | Not applicable |
| 4 | 19 October 2022 | 4 | 4 | 100% | Mr. Khalid Ismail Ms. Shaima Khan Mr. Ali Al-Qahtani Mr. Ali Al-Mansour | Not applicable |

[#]The meeting held on 11 January 2022 was also included in the Board of Directors' report of 2021. A meeting was held on 25 January 2023, the details of which would be included in the Board of Directors' report of 2023. This change in reporting of meetings held is being made to report meetings held in each year's Board of Director's report based on the date of holding the meeting (irrespective of the meeting agenda).

BRCC Members Who Resigned in 2022

Ms. Maha Al-Sudairi and Mr. Fahad Abalkhail resigned from their membership of the BRCC during 2022.

Shariah Committee

Alawwal Invest has a Service Level Agreement ("SLA") with its parent, SABB through which the former obtains Shariah related services. Through the SLA, Alawwal Invest is able to benefit from the guidance and services of SABB's Shariah Committee and SABB's Islamic Financial Services department to get advice on Shariah compliant products, wherever required and ensuring continuous Sharia compliance through Shariah reviews.

CORPORATE GOVERNANCE

Executive Management Profile

| | |
|------------------------------|-------------------------------------------------------------------------------|
| Mr. Ali Al-Mansour | Managing Director & CEO |
| Mr. Osama Al-Oweidi | Chief Investment Officer |
| Mr. Khalid Al-Mohammel | Chief Brokerage Officer |
| Mr. Mohammed Al-Suwayied | Chief Wealth Management Officer (from 1 January 2023) |
| Mr. JP Gariazzo | Head of Transformation Management Office |
| Mr. Ali Al-Faraj | Chief Operating Officer |
| Mr. Na'el Tashkandi | Chief Risk Officer |
| Mr. Haytham Al-Gargoosh | Chief Compliance & Governance Officer and Board Secretary (from 1 March 2023) |
| Mr. Abdulrehman Saeed | Chief Internal Auditor |
| Mr. Faisal Al-Shamrani | Chief Human Resources & Administration Officer |
| Mr. Mohammed Tajammul Hassan | Head of Technology |
| Mr. Ayman Al-Hassan | Head of Finance |

CORPORATE GOVERNANCE

Remuneration

Board

The remuneration paid to the members of the Board of Directors for 2022 were as follows:

| Item | Executive Board Members | Non-Executive Board Members (SAR '000') | Independent Board Members (SAR '000') |
|----------------------------------------------------------------------|-------------------------|-----------------------------------------|---------------------------------------|
| Allowance for attendance of the board of directors' sessions* | - | - | 45 |
| Allowance for attendance of the committees' sessions* | - | - | 54 |
| Periodic and annual remunerations | - | - | 1,426 |
| Incentive plans | - | - | - |
| Any compensations or other in-kind benefits paid monthly or annually | - | - | - |
| Total | - | - | 1,525 |

*The meetings held in January 2022 are not included here as they were included in the Board of Directors' report of 2021.

Executive Management

The remuneration paid for 2022 to six of the senior executives who received the highest remunerations and compensations, in addition to the CEO and the Head of Finance, were as follows:

| Statement | Six of the senior executives who received the highest remunerations and compensations in addition to the CEO and Head of Finance (SAR '000s) |
|----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| Salaries and wages | 5,383 |
| Allowances | 2,051 |
| Periodic and annual remunerations | 9,065 |
| Incentive plans | - |
| Commissions | - |
| Any compensations or other in-kind benefits paid monthly or annually | 245 |
| Total | 16,744 |

CORPORATE GOVERNANCE

Waivers of Remuneration & Compensation

The following members of the Board of Directors have waived their remuneration and compensation during 2022:

1. Mr. Bashar Al-Qunaibit
2. Ms. Maha Al-Sudairi
3. Mr. Tony Cripps
4. Mr. Bandar Bin Ghashyan
5. Mr. Yasser Al-Barrak

Staff Benefit & 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 2022 based on independent actuary valuation amounted to SAR 48 million.



SECTION 5

INTERNAL CONTROLS & RISK MANAGEMENT

INTERNAL CONTROLS & RISK MANAGEMENT

Internal Audit's Overview of Systems & Control

Overview

The Company's management is responsible for establishing an adequate and effective system of internal controls in accordance with the risk appetite and tolerance levels to safeguard its assets, assure accurate information, assure compliance with applicable laws and regulations, promote efficiency and economy, and produce effective results. The Audit Committee periodically meets with internal and external auditors and receives their reports on effectiveness of internal controls. The Audit Committee discussions and decisions are documented in the meetings' minutes and matters requiring attention are escalated to the Board of Directors. During 2022, the Audit Committee members met with the Chief Internal Auditor, Chief Compliance officer, External Auditors, Chief Executive Officer and other senior management executives and have obtained updates on matters that require the Audit Committee's attention.

Internal Audit represents an independent third Line of Defense to assess and review the design and operating effectiveness & efficiencies of the internal control systems and recommends to the management to develop controls. The objective is to provide reasonable assurance that Alawwal Invest is operating within its stated risk appetite and the regulatory framework of the Kingdom. The Chief Internal Auditor reports to the Audit Committee on all audit related matters. The management is responsible for providing unrestricted access to all the required records, personnel and properties and also ensuring that management action plans provided to the Internal Audit function are fully implemented within appropriate and agreed timelines.

During 2022, the Internal Audit function was restructured to reduce dependency on an outsourced third party. Currently, co-sourced arrangements with third party consultants are carried out in areas where subject matter expertise is required. Internal Audit executed and finalized the audit plan for 2022 and validated the successful closure of various issues during the year.

During 2023, the internal audit plans to execute a risk based internal audit plan for 2023 as approved by the Audit Committee and will issue audit reports accordingly to the management and the Audit Committee.

Opinion

The Audit Committee reviewed the effectiveness of the system of internal control and procedures for compliance with Alawwal Invest's internal policies, relevant regulatory and legal requirements in the Kingdom of Saudi Arabia and whether the management has fulfilled its duty in having an effective internal control system, seeking independent assurance from internal audit to assess the adequacy and effectiveness of such internal controls. The Audit Committee assures the Board of Directors and the Shareholder that to the best of its knowledge, and in all material aspects, Alawwal Invest's internal control system is adequately designed and operating effectively; and its recommendation pertaining to the appointment, dismissal, assessment or determining the remuneration of the external Auditors or appointing a Chief Internal Auditor were adopted by the Board of Directors.

INTERNAL CONTROLS & RISK MANAGEMENT

Risk Management

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 on daily basis, while placements allowed with banks having sound credit rating.

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.

Operational risk is the risk taken to achieve Alawwal Invest's strategy or objectives due to inadequate or failed internal processes, people and systems, or from external events. The Risk Appetite for operational risk is established annually and approved by the Board of Directors. This is reviewed at the RCMC with quarterly updates to the BRCC.

To ensure continuous assessment of adequacy of control over operational risks, risk and control assessments are made and the controls identified are tested periodically by Control Owners and Business Risk Control Managers. Issues identified are recorded in the Operational Risk System and the resolution of issues are monitored and followed up by risk and control owners and the status communicated to and monitored at governance committees. In addition, issues identified in other reviews including those conducted by internal audit, external audit and regulatory authorities are also communicated and followed up by the governance committees.

Amongst a number of types of operational risk, the protection of the Alawwal Invest's technology infrastructure and its customers' data is a key focus as more and more transactions are digitalized. Such risk management is outsourced to SABB, and as part of its core business processes, SABB handles various types of customer information and data relating to its customers. Handling of information and data includes its storage, processing, and transmission. SABB has established an Information Security Risk unit reporting to SABB's Chief Risk Officer. This unit provides assurance that SABB's network is secure and is compliant with Information Security Policies by undertaking monitoring of information flows, data risk management and access management over SABB's & Alawwal Invest's core systems.

Cybersecurity risk is the probability of exposure or loss resulting from a cyber-attack or data breach on SABB or Alawwal Invest. The Company continues to strengthen its cyber-control framework and improve its resilience and cybersecurity capabilities, including threat detection and analysis, access control, payment systems controls, data protection, network controls and

INTERNAL CONTROLS & RISK MANAGEMENT

back-up and recovery. Cyber risk is a priority area for SABB and Alawwal Invest are routinely reported at both the RCMC and BRCC to ensure appropriate visibility, governance, and executive support for our ongoing cybersecurity program. SABB took measures to mitigate the inevitable operational risks arising from this change in working practices and operational risks have been managed to an acceptable level during the year without a single successful cyber-attack case to Alawwal Invest's systems.

Liquidity Risk

Liquidity risk is the risk that Alawwal Invest does not have sufficient financial resources to meet its obligations as they fall due or that it can only do so at an excessive cost. Liquidity risk arises from mismatches in the timing of cash flows. Funding risk is the risk that funding used to fund assets is not sustainable over time. Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required.

To control and manage this risk, the Board of Directors have approved a range of risk appetite and tolerance limits, including but not limited to the Liquidity Coverage Ratio, the Net Stable Funds Ratio as well as a series of concentration limits on the source of funding and its maturity profile. All metrics are closely monitored by the first line of defense risk owners, together with regular oversight and monitoring by the management (via RCMC) and the BRCC.

AI has a highly liquid balance sheet with the majority of its assets being placed with the Saudi Banks, 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.

Market Risk

Market risk is the risk that movements in market factors, including foreign exchange rates, special commission rates, credit spreads and equity prices, will reduce our income or the value of our portfolios. The Company's exposure to market risk is minimal due to limited trading portfolios. Market risk is monitored and measured using limits and metrics approved by the BRCC. The exposure and limits are monitored by an independent risk function.

Impairment Risk

There are two main risk sources of impairments coming from margin lending customers' inability to repay credit facility or its profits and from banks inability to repay the Company's deposits placed with them. Such risk is mitigated by the fully secured nature of margin lending facilities and the Company's daily monitoring of margin lending positions. Any potential default of payment could be covered by liquidating, partially or fully, the securities in the portfolio related to such default exposure.

With regards to impairment risk from banks that the Company places its deposits with, such risk is being mitigated by carefully reviewing the credit risk of such banks before placing such deposits with them.

INTERNAL CONTROLS & RISK MANAGEMENT

Reputation Risk

Reputational risk relates to stakeholders' perceptions, whether based on fact or otherwise. As stakeholders' expectations are constantly changing, reputational risk is dynamic. Therefore, Alawwal Invest's approach to reputational risk management must be upheld at all times and across all businesses and functions.

Al has built a strong image and reputation within the Saudi market, and maintains an unwavering commitment to operate, and be seen to be operating, to the highest standards set for itself. The reputation of Alawwal Invest is critical to its success. Any financial services organization stands or falls by its reputation and the customers' confidence in it, and the reputation can be severely damaged by non-compliance with relevant regulations or by inappropriate actions or comments to the media or in the public domain.

The maintenance of customer confidence is a prime objective of the management and can be achieved through a strong and healthy financial position and by exhibiting successful risk management. Alawwal Invest has zero tolerance for knowingly engaging in any business or activity where foreseeable reputational risk and/or damage has not been considered and/or mitigated. Al tolerates a limited degree of reputational risk arising from activities where the risk has been carefully considered and/or mitigated and determined to fall below the risk threshold.

Regulatory Compliance Risk

Regulatory risks arise from the risks of non-compliance with the relevant regulations, laws and guidelines. These risks are managed by Regulatory Compliance and Financial Crime Compliance units, that are entrusted by the Board of Directors with the tasks of reviewing the regulatory risks faced by the Company and taking the necessary steps to manage and mitigate them through different means which may include establishing compliance policies, employees training and awareness, ongoing monitoring of the compliance level within the Company and setting and executing the annual compliance programme.

Liquidity & 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.

The Company's primary sources of funding are internal cash flows generated from its business operations, cash from excess capital and finally borrowings from banks in the form of committed facilities. The Company uses a combination of these funding sources and meets 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's

INTERNAL CONTROLS & RISK MANAGEMENT

managed local funds and short term deposit placements) as per the proprietary investment policy.

The following table provides a consolidated view of our liquidity and funding sources:

| Liquidity and Funding Sources | 31 December 2022 balance in SAR millions | 31 December 2021 balance in SAR millions | Description |
|-------------------------------------------------|------------------------------------------|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Cash balances and deposit placements with banks | 353 | 469 | Includes cash balances of the Company that are generated from its business activities and capital. The company holds its balances with SABB and other banks. |
| Investments | 193 | 124 | The Company invests its excess cash in its own and other investment funds, sukuk instruments and listed local equity investments. |
| Borrowing from Bank | 833 | 81 | The Company has established adequate level of borrowing, overdraft, guarantee and hedging facilities with SABB to support its liquidity and funding requirements. |



SECTION 6

DISCLOSURES & DECLARATIONS

DISCLOSURES & DECLARATIONS

Affiliates

The following are the Company's affiliates:

1. SABB
2. SABB's subsidiaries and affiliates:
 - 2.1 SABB Insurance Agency Limited (SABB's subsidiary)
 - 2.2 Arabian Real Estate Company Limited (SABB's subsidiary)
 - 2.3 SABB Markets Limited (SABB's subsidiary)
 - 2.4 Alawwal Real Estate Company (SABB's subsidiary)
 - 2.5 HSBC SA
 - 2.6 Saudi Kayan Assets Leasing Company (SABB's SPV)
 - 2.7 Rabigh Asset Leasing Company (SABB's SPV)
 - 2.8 Yanbu Asset Leasing Company (SABB's SPV)
 - 2.9 HSBC Group

Penalties & Sanctions

Alawwal Invest's endeavor is to apply, both 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 or by any other regulatory bodies.

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 SABB and its affiliated companies, funds managed by the Company, the members of the Company's Board of Directors, its committees and key management personnel. The transactions with the related parties are disclosed in note 16 of the 2022 audited financial statements of the Company.

Contracts or Transactions with Board Members or Senior Executives

The Company has not entered into any contract in which any member of the Company's Board of Directors, the Chief Executive Officer, the senior executives, or any of their associates has or had any material interest.

DISCLOSURES & DECLARATIONS

Statutory Payments

Statutory payments payable by the Company during 2022 consist of the following:

| | SAR |
|-------------------------------------------------------------------------------|-----------|
| Zakat settlement paid to ZATCA pertaining to previous fiscal years up to 2022 | 8,614,705 |
| GOSI payments | 4,276,910 |
| Withholding tax | 373,453 |
| Other payments | 2,141 |
| Value Added Tax – (paid in 2022 from Dec 2021 – Nov 2022) | 6,972,658 |
| Capital Market Authority | 583,500 |

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.

Appointment of External Auditors

As recommended by the Company’s Audit Committee, the Company’s shareholder, SABB, appointed PricewaterhouseCoopers as the external auditor for 2022 at the Ordinary General Assembly held on 21 June 2022.

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.

DISCLOSURES & DECLARATIONS

Board of Directors' Clarification on Auditor's Reservations

There were no reservations expressed by the external auditors on the financial statements of the Company for the year ending 31 December 2022.

Board of Directors' Approval of Financial Statements

The financial statements for the year ended 31 December 2022 were approved by the Board of Directors on 29 March 2023.

General Assembly Meetings

In 2022, the Ordinary General Assembly Meeting of the Company was held on 21 June 2022. The Company also held an Extraordinary General Assembly Meeting on 10 March 2022 for, among other things, increasing the share capital of the Company from SAR 400 million to SAR 840 million.

Ownership of Board Members & Senior Executives

Neither the Members of the Board of Directors of the Company, nor any of its senior executives nor any of their relatives have any direct ownership or interest in the shares or debt instruments issued by the Company and there were no changes to those interests in 2022.