

**ALAWWAL INVEST COMPANY**  
(One Person Closed Joint Stock Company)  
**FINANCIAL STATEMENTS**  
**For the year ended 31 December 2020**  
together with the  
**Independent auditor's report**

**ALAWWAL INVEST COMPANY**  
**(ONE PERSON CLOSED JOINT STOCK COMPANY)**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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## KPMG Professional Services

Riyadh Front, Airport road  
P O Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia  
Headquarter

Commercial Registration No 1010425494

## كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار  
صندوق بريد ٩٢٨٧٦  
الرياض ١١٦٦٣  
المملكة العربية السعودية  
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

# Independent auditor's report

To the shareholder of Alawwal Invest Company

## Opinion

We have audited the financial statements of Alawwal Invest Company ("the Company"), which comprise the statement of financial position as at 31 December 2020, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

## Basis for opinion

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

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

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

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

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

## Auditor's responsibilities for the audit of the financial statements

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

# Independent auditor's report

To the shareholder of Alawwal Invest Company (continued)

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

As part of an audit in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

### KPMG Professional Services

**Hani Hamzah A. Bedairi**  
License no: 460

Riyadh: 16 Sha'ban 1442H  
Corresponding to: 29 March 2021



**ALAWWAL INVEST COMPANY**  
**(ONE PERSON CLOSED JOINT STOCK COMPANY)**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2020**  
*(Amount in SAR '000s')*

	<i>Note</i>	<b>31 December 2020</b>	31 December <u>2019</u>
<b><u>Assets</u></b>			
Cash and cash equivalents	4	<b>5,730</b>	2,504
Time deposits	5	<b>435,593</b>	450,544
Investments held at fair value through profit or loss	6	<b>123,041</b>	121,588
Margin finance receivables	7	<b>164,462</b>	143,627
Right of use asset	8	<b>3,958</b>	5,277
Other assets	9	<b>1,426</b>	616
<b>Total assets</b>		<b><u>734,210</u></b>	<u>724,156</u>
<b><u>Liabilities</u></b>			
Short-term borrowings	11	<b>164,417</b>	143,627
Due to related party	12	<b>17,371</b>	17,093
Accrued expenses and other liabilities	13	<b>7,769</b>	4,959
Zakat and income tax payable	15	<b>9,686</b>	7,293
Lease liability	10	<b>4,031</b>	6,721
Employees' end of service benefits	14	<b>12,968</b>	11,198
<b>Total liabilities</b>		<b><u>216,242</u></b>	<u>190,891</u>
<b><u>Equity</u></b>			
Share capital	16	<b>400,000</b>	400,000
Statutory reserve	16	<b>23,040</b>	23,040
Retained earnings		<b>93,630</b>	108,920
Other reserves		<b>1,298</b>	1,305
<b>Total equity</b>		<b><u>517,968</u></b>	<u>533,265</u>
<b>Total liabilities and equity</b>		<b><u>734,210</u></b>	<u>724,156</u>

The accompanying notes 1 to 30 form an integral part of these financial statements.

**ALAWWAL INVEST COMPANY**  
**(ONE PERSON CLOSED JOINT STOCK COMPANY)**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
*(Amount in SAR '000s')*

		<b>For the year ended 31 December</b>	
	<i>Note</i>	<b><u>2020</u></b>	<b><u>2019</u></b>
<b>Revenue</b>			
Asset management fee	19	8,709	11,101
Investment banking income	20	306	428
Brokerage fee income		16,965	9,592
Special commission income	21	11,848	18,595
Fee for custody and other services		885	742
Unrealized gain on investments held at fair value through profit or loss		1,453	2,937
<b>Total revenue</b>		<b>40,166</b>	43,395
<b>Expenses</b>			
Salaries and employee related expenses		22,271	22,083
Premises related expenses		873	688
Special commission expense on short term borrowings		1,712	4,739
General and administrative expenses	22	11,063	10,955
Depreciation	8	1,319	1,319
Finance charge	10	101	125
<b>Total operating expenses</b>		<b>37,339</b>	39,909
<b>Income before zakat and income tax</b>		<b>2,827</b>	3,486
Zakat and income tax	15	18,117	7,715
<b>Net loss for the year</b>		<b>(15,290)</b>	(4,229)
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Actuarial (loss) / gain on employees' end of service benefits		(7)	2,442
<b>Total other comprehensive (loss) / income for the year</b>		<b>(7)</b>	2,442
<b>Total comprehensive loss for the year</b>		<b>(15,297)</b>	(1,787)

The accompanying notes 1 to 30 form an integral part of these financial statements.

**ALAWWAL INVEST COMPANY**  
**(ONE PERSON CLOSED JOINT STOCK COMPANY)**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
*(Amount in SAR '000s')*

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance as at 1 January 2020</b>	<b>400,000</b>	<b>23,040</b>	<b>1,305</b>	<b>108,920</b>	<b>533,265</b>
Net loss for the year	-	-	-	(15,290)	(15,290)
Other comprehensive loss	-	-	(7)	-	(7)
Total comprehensive loss	-	-	(7)	(15,290)	(15,297)
<b>Balance as at 31 December 2020</b>	<b>400,000</b>	<b>23,040</b>	<b>1,298</b>	<b>93,630</b>	<b>517,968</b>
Balance as at 1 January 2019	400,000	22,691	(1,137)	113,498	535,052
Net loss for the year	-	-	-	(4,229)	(4,229)
Other comprehensive income	-	-	2,442	-	2,442
Total comprehensive loss	-	-	2,442	(4,229)	(1,787)
Transfer to statutory reserve	-	349	-	(349)	-
Balance as at 31 December 2019	400,000	23,040	1,305	108,920	533,265

The accompanying notes 1 to 30 form an integral part of these financial statements.

**ALAWWAL INVEST COMPANY**  
**(ONE PERSON CLOSED JOINT STOCK COMPANY)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
*(Amount in SAR '000s')*

	<i>Note</i>	<b>For the year ended 31 December</b>	
		<b><u>2020</u></b>	<b><u>2019</u></b>
<b>Cash flows from operating activities</b>			
Net income before zakat and income tax for the year		<b>2,827</b>	3,486
<i>Adjustments for:</i>			
Employees' end-of-service benefits	<i>14.1</i>	<b>1,409</b>	1,725
Unrealized gain on investments held at fair value through profit or loss		<b>(1,453)</b>	(2,937)
Depreciation	<i>8</i>	<b>1,319</b>	1,319
Finance charge	<i>10</i>	<b>101</b>	125
<b>Changes in operating assets and liabilities:</b>			
(Increase) / decrease in margin finance receivables		<b>(20,835)</b>	103,023
(Increase) / decrease in other assets		<b>(810)</b>	91
Increase in due to related party		<b>278</b>	14,444
Increase in accrued expenses and other liabilities		<b>2,810</b>	900
<b>Cash (used in) / generated from operations</b>		<b>(14,354)</b>	122,176
End-of-service benefits paid / transfer from SABB	<i>14</i>	<b>354</b>	-
Zakat and income tax paid	<i>15</i>	<b>(15,724)</b>	(7,399)
<b>Net cash (used in) / generated from operating activities</b>		<b>(29,724)</b>	114,777
<b>Cash flows from investing activities</b>			
Time deposits matured / (reinvested)		<b>14,951</b>	(24,960)
<b>Net cash generated from / (used in) investing activities</b>		<b>14,951</b>	(24,960)
<b>Cash flows from financing activities</b>			
Payment for lease liability		<b>(2,791)</b>	-
Proceeds from / (repayment of) short-term borrowings	<i>11.1</i>	<b>20,790</b>	(102,421)
<b>Net cash generated from / (used in) financing activities</b>		<b>17,999</b>	(102,421)
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>3,226</b>	(12,604)
Cash and cash equivalents at beginning of the year		<b>2,504</b>	15,108
<b>Cash and cash equivalents at the end of the year</b>	<i>4</i>	<b>5,730</b>	2,504
<b>Supplemental information</b>			
Special commission received during the year		<b>13,356</b>	20,490
Special commission paid during the year	<i>11.1</i>	<b>2,014</b>	5,164

The accompanying notes 1 to 30 form an integral part of these financial statements.

**ALAWWAL INVEST COMPANY**  
**(ONE PERSON CLOSED JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
*(Amount in SAR '000s')*

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**1. ORGANIZATION AND ACTIVITIES**

Alawwal Invest Company (“the Company”) is a One Person Closed Joint Stock Company and operating in the Kingdom of Saudi Arabia under Commercial Registration No. 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to 9 January 2008).

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

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

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

**2. BASIS OF PREPARATION**

**2.1. *Statement of compliance***

These financial statements presenting the operations conducted by the Company for the year ended 31 December 2020 have been prepared in accordance with the International Financial Reporting Standards (“IFRS”), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants (“SOCPA”), and in compliance with the applicable requirements of the Regulation for Companies in the Kingdom of Saudi Arabia and the Company’s By-laws.

**2.2. *Basis of measurement***

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

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

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

**2.3. *Functional and presentation currency***

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

**2.4. *Use of judgements, estimates and assumptions***

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

**ALAWWAL INVEST COMPANY**  
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## **2. BASIS OF PREPARATION (CONTINUED)**

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

### **2.4.1 *Employees' end of service benefit***

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

### **2.5 *Standard issued but not yet effective***

Following are the new standards and amendments to standards, which are effective for annual periods beginning on, or after 1 January 2021 and earlier application is permitted however, the Company has not early adopted them in preparing these financial statements. The following standards are not expected to have a significant impact on the financial statements of the Company.

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- Annual Improvements to IFRS Standards 2018-2020
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Classification of liabilities as current or non-current (Amendments to IAS 1)

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have consistently been applied to all periods presented unless otherwise stated, where policies are applicable only on or from 1 January 2020, those policies have been particularly specified.

### **(a) *Financial instruments***

#### ***Classification and measurement of financial assets***

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

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

#### ***Measurement***

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

**ALAWWAL INVEST COMPANY**  
**(ONE PERSON CLOSED JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
*(Amount in SAR 000s')*

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Financial asset at amortized cost***

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

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

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

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

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

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

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

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

***Business model assessment***

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

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

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

***Assessment whether contractual cash flows are solely payments of principal and commission***

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

***Reclassifications***

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

***Expected credit loss on financial assets***

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

**ALAWWAL INVEST COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
*(Amount in SAR 000s')*

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Financial liabilities***

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

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

***De-recognition of financial instruments***

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

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

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

***Offsetting of financial instruments***

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

**(b) Revenue from contracts with customers**

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

***Asset management fees***

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

***Investment banking income***

Advisory and investment banking services revenue is recognised based on services rendered under the applicable service contracts.

***Brokerage income***

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

***Special commission income***

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

**ALAWWAL INVEST COMPANY**  
**(ONE PERSON CLOSED JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
*(Amount in SAR 000s')*

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Cash and cash equivalents**

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

**(d) Leases**

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

Right of Use Assets ("ROU")

The company apply cost model, and measure right of use asset at cost;

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

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

Lease Liability

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

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

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

**(e) Provisions**

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

**(f) Employees' end of service benefits liability**

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

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

**(g) Short-term employee benefits**

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

**ALAWWAL INVEST COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
*(Amount in SAR 000s')*

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(h) Foreign currencies transactions and balances**

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

**(i) Assets under management**

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

**(j) Margin lending**

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

**(k) Accrued expenses and other liabilities**

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

**(l) Clients' cash accounts**

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

**(m) Expenses**

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

**(n) Zakat and taxation**

Current income tax and zakat

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

Deferred tax

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(o) Contingent assets and liabilities**

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

**(p) Segment reporting**

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

**4. CASH AND CASH EQUIVALENTS**

	<b>31 December 2020</b>	31 December 2019
Cash in hand	<b>1</b>	1
Cash at bank - current account	<b>5,729</b>	2,503
	<b>5,730</b>	2,504

**5. TIME DEPOSITS**

Time deposits are placed with The Saudi British Bank ("SABB") and carry profit at commercial rates, with maturity up to October 2021 (2019: April 2020).

**6. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS**

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

<b>Mutual funds managed by the Company</b>	<b>31 December 2020</b>		31 December 2019	
	<b>Cost</b>	<b>Fair value</b>	Cost	Fair value
Al-Yusr Saudi Riyal Morabaha Fund	<b>38,395</b>	<b>42,584</b>	38,395	42,195
Saudi Riyal Money Market Fund	<b>26,936</b>	<b>29,938</b>	26,936	29,670
Al Yusr Morabaha & Sukuk Fund	<b>44,693</b>	<b>50,519</b>	44,693	49,723
	<b>110,024</b>	<b>123,041</b>	110,024	121,588

**7. MARGIN FINANCE RECEIVABLES**

The Company extends margin lending facilities on a selective basis to its customers for the purpose of investing in the Saudi equity market. These facilities are extended up to a maximum period of one year and bear special commission rate based on base rate (3M SAIBOR) plus a specific percentage as per policy according to the amount of limit obtained. The facilities are collateralised by underlying equities and cash held in the customers' investment accounts. As at 31 December 2020, no expected credit loss has been recorded against these margin receivables because of sufficient liquid securities held in the customers' investment accounts as a collateral.

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**8. RIGHT OF USE ASSET**

Right of use asset relates to leased property.

	<u>2020</u>	<u>2019</u>
Balance at 1 January	5,277	6,596
Depreciation charge for the year	<u>(1,319)</u>	<u>(1,319)</u>
Balance at 31 December	<u><u>3,958</u></u>	<u><u>5,277</u></u>

**9. OTHER ASSETS**

	<u>2020</u>	<u>2019</u>
Accrued fees	313	616
Prepaid expenses	345	-
Others (note 9.1)	<u>768</u>	<u>-</u>
Balance at 31 December	<u><u>1,426</u></u>	<u><u>616</u></u>

9.1 Others includes VAT and income tax recoverable from General Authority of Zakat and Tax amounting to SAR 0.58 million and SAR 0.19 million respectively (note 15.4).

**10. LEASE LIABILITY**

	<u>2020</u>	<u>2019</u>
Balance at 1 January	6,721	6,596
Interest expense for the year	101	125
Payment for lease liability	<u>(2,791)</u>	<u>-</u>
Balance at 31 December	<u><u>4,031</u></u>	<u><u>6,721</u></u>

**2020**

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

**2019**

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

**11. SHORT-TERM BORROWINGS**

The Company has an overdraft credit facility of SAR 600 million from SABB to finance margin lending facilities. As at 31 December 2020, the amount of this facility utilized by the Company amounted to SAR 164.4 million (2019: 143.6 million). It carries special commission rate of three months SAIBOR.

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

	<u>2020</u>	<u>2019</u>
Balance at 1 January	143,627	246,048
Accrued special commission expense for the year	1,712	4,739
Proceeds from short-term borrowings	383,634	434,040
Repayments of short-term borrowings	<u>(364,556)</u>	<u>(541,200)</u>
Balance at 31 December	<u><u>164,417</u></u>	<u><u>143,627</u></u>

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**12. RELATED PARTY TRANSACTIONS**

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

	<u>Relationship</u>	<u>2020</u>	<u>2019</u>
Advisory and arranging fee	Affiliate	<u>200</u>	<u>2</u>
Fee for custody and other services	Parent	<u>675</u>	<u>742</u>
Special commission income	Parent	<u>6,468</u>	<u>11,035</u>
Asset management fee	*Mutual funds managed by the Company	<u>8,277</u>	<u>9,686</u>
Special commission expense	Parent	<u>1,712</u>	<u>4,739</u>
Operating expenses charged by SABB under Service Level Agreement (Note 12.1)	Parent	<u>7,026</u>	<u>7,026</u>

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

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

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

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

	<u>Relationship</u>	<u>31-Dec-20</u>	<u>31-Dec-19</u>
Due to related party	Parent	<u>17,371</u>	<u>17,093</u>
Short term borrowings	Parent	<u>164,417</u>	<u>143,325</u>
Special commission accrued on short term borrowings	Parent	<u>-</u>	<u>302</u>

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

	<u>2020</u>	<u>2019</u>
Board of directors and committee members	<u>500</u>	<u>500</u>
Key management personnel	<u>6,998</u>	<u>6,654</u>

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**13. ACCRUED EXPENSES AND OTHER LIABILITIES**

	<b>31 December 2020</b>	31 December 2019
Accrued employees benefits	3,369	2,338
Other expenses (note 13.1)	4,400	2,621
	<b>7,769</b>	<b>4,959</b>

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

**14. EMPLOYEES' END OF SERVICE BENEFITS**

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

	<b>31 December 2020</b>	31 December 2019
Balance at beginning of the year	11,198	11,915
EOSB cost charged to profit or loss (note 14.1)	1,409	1,725
Re-measurement loss / (gain) recognized in other comprehensive income	7	(2,442)
Transfer liability	386	-
Benefits paid during the year	(32)	-
<b>Balance at the end of the year</b>	<b>12,968</b>	<b>11,198</b>

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

	<b>2020</b>	2019
Current service cost	1,052	1,116
Interest cost	357	548
Past service cost	-	61
<b>EOSB costs charged to profit or loss</b>	<b>1,409</b>	<b>1,725</b>

14.2 Principal actuarial assumptions

<b>Particulars</b>	<b>2020</b>	2019
Discount rate	<b>2.05% pa</b>	3.20% pa
Expected rate of salary increase - <i>short term</i> :	<b>2.50% pa</b>	3.00% pa
Expected rate of salary increase - <i>long term</i> :	<b>2.05% pa</b>	3.00% pa

Sensitivity of actuarial assumption

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December 2020 to the discount rate and salary escalation rate.

	<b>Impact on defined benefit obligation - increase / (decrease)</b>		
	<b>Change in assumption</b>	<b>Increase in assumption</b>	<b>Decrease in assumption</b>
<b>Base scenario</b>			
<b>2020</b>			
Discount rate	1%	(878)	999
Expected rate of salary increase	1%	1,020	(914)
<b>2019</b>			
Discount rate	1%	(699)	789
Expected rate of salary increase	1%	811	(732)

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**14. EMPLOYEES' END OF SERVICE BENEFITS (CONTINUED)**

The above sensitivity analysis are based on a change in an assumption holding all other assumptions constant. The weighted average duration of the defined benefit obligation is 7.5 years (2019: 6.6 years).

Maturity profile

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

	<u>2020</u>
Distribution of timing of benefit payments	
Year 1	1,584
Year 2	1,062
Year 3	818
Year 4	783
Year 5	756
Year 6 to Year 10	4,570
Year 11 and above	5,156

**15. ZAKAT AND INCOME TAX**

	<b>For year ended 31 December</b>	
	<b>2020</b>	2019
Zakat for the year	<b>17,954</b>	6,722
Income tax for the year	<b>163</b>	419
Deferred tax expense for the year	<b>-</b>	574
	<b>18,117</b>	7,715

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

	<u>2020</u>	<u>2019</u>
Share Capital	<b>260,028</b>	240,000
Adjusted net income	<b>1,486</b>	3,145
Provisions and reserves	<b>93,805</b>	17,683
Zakat base	<b>355,319</b>	260,828
Zakat charge for the current year	<b>9,159</b>	6,722
Zakat charge for the years 2015-18 (note 15.4)	<b>7,294</b>	-
Additional zakat charge for 2019 as per the final return	<b>1,501</b>	-
Total charge	<b>17,954</b>	6,722

15.2 Income tax for the year is as follows:

	<u>2020</u>	<u>2019</u>
Non-Saudi shareholders share of adjusted net income	<b>815</b>	2,096
Income tax for the year	<b>163</b>	419

15.3 Movement in zakat and income tax provision

	<u>2020</u>	<u>2019</u>
Balance as at the beginning of the year	<b>7,293</b>	7,551
Zakat provision during the year (Note 15.1)	<b>17,954</b>	6,722
Income tax provision during the year (Note 15.2)	<b>163</b>	419
Payments / adjustment during the year for prior years	<b>(15,724)</b>	(7,399)
Balance at the end of the year	<b>9,686</b>	7,293

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**15. ZAKAT AND INCOME TAX (CONTINUED)**

15.4 Status of assessment

The Company has filed all zakat and tax returns up to the year ended 31 December 2019. The tax/zakat assessment of the Company is finalized up to the year ended 31 December 2013.

For the year 2014, the Company received initial assessment from the General Authority of Zakat and Tax ("GAZT") for additional zakat demand of approximately SAR 2.596 million. This additional liability has arisen due to the disallowance of investments. During 2015, the Company has filed an appeal with respective committees against the initial assessment. However, neither a response has been received from GAZT since the appeal nor a final assessment has been issued by GAZT to date.

For the years 2015 to 2018, the Company received the final assessments for additional tax and zakat of SAR 0.19 million (exclusive of applicable delay fine) and SAR 7.294 million, respectively. The additional tax liability has arisen due to disallowances of certain expenses while additional zakat liability has arisen due to disallowance of investments. The Company has filed an appeal against the additional tax assessment. However, the Company has accepted the zakat assessment and settled the assessed additional zakat liability. To date, the Company is awaiting response from GAZT with respect to the appeal filed against the additional tax assessment.

For the year 2019, the assessment has not been received yet by the Company. The Company's zakat and tax return for the year ended 31 December 2020 is due to be filed on or before 30 April 2021.

**16. SHARE CAPITAL AND RESERVES**

*Share capital*

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

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.

*Statutory reserve*

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

**17. CLIENTS' CASH ACCOUNTS**

At 31 December 2020, the Company holds clients' cash accounts amounting to SAR 0.93 billion (2019: SAR 1.45 billion), to be used for investments on the clients' behalf. Consistent with its accounting policy, such balances are not included in the Company's financial statements as the Company holds these in fiduciary capacity.

**18. ASSETS UNDER MANAGEMENT**

These represent the mutual funds', and discretionary portfolios' assets related to the funds of the investors managed by the Company, which amount to SAR 1.35 billion as at 31 December 2020 (2019: SAR 1.95 billion). Consistent with its accounting policy, such balances are not included in the Company's financial statements as these are held by the Company in fiduciary capacity.

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**19. ASSET MANAGEMENT FEE**

	<b>For year ended 31 December</b>	
	<b>2020</b>	2019
Management fee from Mutual funds (note 12)	<b>8,277</b>	9,686
Management fee from Discretionary portfolio management	<b>432</b>	1,415
	<b>8,709</b>	11,101

**20. INVESTMENT BANKING INCOME**

	<b>For year ended 31 December</b>	
	<b>2020</b>	2019
Mergers and acquisitions	<b>200</b>	158
Private placement	-	270
Others	<b>106</b>	-
	<b>306</b>	428

**21. SPECIAL COMMISSION INCOME**

	<b>For year ended 31 December</b>	
	<b>2020</b>	2019
Margin lending income	<b>5,380</b>	7,560
Time deposits	<b>6,468</b>	11,035
	<b>11,848</b>	18,595

**22. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>For year ended 31 December</b>	
	<b>2020</b>	2019
Expenses under Service Level agreement (note 12.1)	<b>7,026</b>	7,026
Communication expenses	<b>1,168</b>	1,824
Professional expenses	<b>1,058</b>	577
Stationery and printing	<b>97</b>	110
Traveling	<b>17</b>	25
Other expenses	<b>1,697</b>	1,393
	<b>11,063</b>	10,955

**23. FAIR VALUE MEASUREMENTS**

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

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

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**23. FAIR VALUE MEASUREMENTS (CONTINUED)**

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

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

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

31 December 2020					
<u>Financial assets measured at fair value</u>	<u>Carrying value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held at FVTPL	123,041	-	123,041	-	123,041
31 December 2019					
<u>Financial assets measured at fair value</u>	<u>Carrying value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held at FVTPL	121,588	-	121,588	-	121,588

The fair value of investments classified within Level 2 is based on the net asset value ("NAV") quoted on the Saudi Stock Exchange as at 31 December 2020.

There were no transfers between fair value measurement categories.

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

**24. OPERATING SEGMENTS**

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

**Investment banking**

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

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**24. OPERATING SEGMENTS (CONTINUED)**

**Brokerage**

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

**Asset management**

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

**Corporate**

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

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

	<b>2020</b>				
	<u>Investment</u>		<u>Asset</u>		<u>Total</u>
	<u>Banking</u>	<u>Brokerage</u>	<u>Management</u>	<u>Corporate</u>	
Revenue	306	23,230	8,709	7,921	40,166
Expense	2,734	8,020	3,870	22,715	37,339
	<b>2019</b>				
	<u>Investment</u>		<u>Asset</u>		<u>Total</u>
	<u>Banking</u>	<u>Brokerage</u>	<u>Management</u>	<u>Corporate</u>	
Revenue	428	17,894	11,101	13,972	43,395
Expense	2,271	10,006	3,649	23,983	39,909

**25. RISK MANAGEMENT**

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

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

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

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**25. RISK MANAGEMENT (CONTINUED)**

25.1 Credit risk

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

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

	<b>Credit exposure as at 31 December 2020</b>	Credit exposure as at 31 December 2019
Cash at bank	<b>5,729</b>	2,503
Time deposits	<b>435,593</b>	450,544
Margin finance receivables	<b>164,462</b>	143,627
Other assets	<b>313</b>	616
	<b>606,097</b>	597,290

*Cash at bank and time deposits*

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

*Margin finance receivables*

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

As on 31 December 2020, none of the margin finance receivables are neither past due nor credit impaired. The facilities are collateralised by underlying equities and cash held in the customers' investment accounts, that amounted to SAR 845.167 million.

25.2 Market risk

*Currency risk*

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

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**25. RISK MANAGEMENT (CONTINUED)**

*Commission rate risk*

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

<b>Commission rate risk</b>	<b>Within 3 months</b>	<b>3-12 months</b>	<b>Over 1 years</b>	<b>Non commission bearing</b>	<b>Total</b>
<b>31 December 2020</b>					
<b>Total financial assets</b>					
Cash at bank	-	-	-	5,729	5,729
Time deposits	25,000	410,593	-	-	435,593
Investment held at fair value through profit or loss	-	-	-	123,041	123,041
Margin finance receivables	164,462	-	-	-	164,462
Other assets	-	-	-	313	313
<b>Total financial assets</b>	<b>189,462</b>	<b>410,593</b>	<b>-</b>	<b>129,083</b>	<b>729,138</b>
Accrued expenses and other liabilities	-	-	-	7,769	7,769
Short-term borrowing	164,417	-	-	-	164,417
Total equity	-	-	-	517,968	517,968
<b>Total financial liabilities and equity</b>	<b>164,417</b>	<b>-</b>	<b>-</b>	<b>525,737</b>	<b>690,154</b>
<b>Cumulative commission rate sensitivity gap</b>	<b>25,045</b>	<b>435,638</b>	<b>435,638</b>	<b>38,984</b>	
<b>31 December 2019</b>					
<b>Total financial assets</b>					
Cash at bank	-	-	-	2,503	2,503
Time deposits	-	450,544	-	-	450,544
Investment held at fair value through profit or loss	-	-	-	121,588	121,588
Margin finance receivables	143,627	-	-	-	143,627
Accounts receivable	-	-	-	616	616
<b>Total financial assets</b>	<b>143,627</b>	<b>450,544</b>	<b>-</b>	<b>124,707</b>	<b>718,878</b>
Accrued expenses and other liabilities	-	-	-	4,959	4,959
Short-term borrowing	143,627	-	-	-	143,627
Total equity	-	-	-	533,265	533,265
<b>Total financial liabilities and equity</b>	<b>143,627</b>	<b>-</b>	<b>-</b>	<b>538,224</b>	<b>681,851</b>
<b>Cumulative commission rate sensitivity gap</b>	<b>-</b>	<b>450,544</b>	<b>450,544</b>	<b>37,027</b>	

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**25. RISK MANAGEMENT (CONTINUED)**

*Price risk*

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

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

Management's best estimate of the effect on statement of income due to a reasonably possible change in aggregate NAV of all the mutual funds invested in, with all other variables held constant is indicated in the table below. In practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material.

Variable	Change in NAV%	Effect on income statement for the years ended	
		31 December 2020	31 December 2019
Net Asset Value (NAV)	±5	±6,151	±6,079

**25.3 Liquidity Risk**

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

**26. COVID 19 PANDEMIC**

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government, following which the Government ended the lockdowns and has taken phased measures towards normalization.

The Company's operations have been resilient during the pandemic year and the Company was able to offer uninterrupted services to its clients and maintain day-to-day business operations. In response to the rapid spread of the virus and the resulting disruption of some social and economic activities, the Company has taken a series of preventive and precautionary measures, including activating of remote work to ensure the safety of its employees and their families. The management continues to monitor the ongoing situation closely although at this time management is not aware of any factors that are expected to have any potential impact on its financial performance during 2021.

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**27. CAPITAL ADEQUACY**

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

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

	2020 SAR '000	2019 SAR '000
<b>Capital Base:</b>		
Tier-1 Capital	517,968	533,265
Tier-2 Capital	-	-
<b>Total Capital Base</b>	<b>517,968</b>	<b>533,265</b>
<b>Minimum Capital:</b>		
Market Risk	-	19,454
Credit Risk	77,811	48,738
Operational Risk	9,335	9,977
<b>Total Minimum Capital</b>	<b>87,146</b>	<b>78,169</b>
<b>Surplus Capital</b>	<b>430,822</b>	<b>455,096</b>
<b>Capital Adequacy Ratio (times)</b>	<b>5.94</b>	<b>6.82</b>

- a) Tier 1 capital consists of paid-up share capital, accumulated profits, share premium (if any), reserves excluding revaluation reserves, with certain deductions as per the Rules.
- b) There is no Tier-2 capital for the year ended 31 December 2020.

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

**28. SUBSEQUENT EVENTS**

There were no subsequent events after the balance sheet date that requires any adjustment and or disclosure in the financial statements.

**29. COMPARATIVE FIGURES**

Certain prior year figures have been reclassified to conform with the current years' presentation.

**30. APPROVAL OF FINANCIALS STATEMENTS**

These financials statements were approved by the Board of Directors on 11 Sha'aban 1442H, corresponding to 24 March 2021.