

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020
together with the
INDEPENDENT AUDITOR'S REPORT

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2020

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KPMG Professional Services

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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 Albilad Investment Company

Opinion

We have audited the financial statements of Albilad Investment 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.

Other matter

The financial statements of the Company as at and for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on 9 March 2020.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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



Independent auditor's report

To the shareholder of Albilad Investment 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: 15 Sha'ban 1442H
Corresponding to: 28 March 2021

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2020
(Amounts in Saudi Riyals)

	<i>Note</i>	<u>2020</u>	<u>2019</u>
Assets			
Cash and bank balances	4	325,370,813	284,386,611
Receivable against margin lending	5	115,276,669	148,354,000
Investments held at fair value through statement of income (FVTPL)	6	307,873,218	273,403,928
Other assets	8	82,601,322	80,568,011
Investments held at amortized cost	7	30,661,273	3,285,246
Property and equipment, net	9	5,120,842	6,075,223
Intangible assets, net	10	1,501,545	2,591,585
Right-of-use assets	9	6,325,748	--
Total assets		<u>874,731,430</u>	<u>798,664,604</u>
Liabilities and equity			
Liabilities			
Short-term murabaha financing	11	--	20,029,633
Accruals and other liabilities	12	176,630,251	164,436,453
Zakat payable	13	8,455,357	8,861,425
Lease liability	9	6,516,041	--
Employees' end of service benefits	14	11,889,012	9,278,105
Total liabilities		<u>203,490,661</u>	<u>202,605,616</u>
Equity			
Share capital	15	200,000,000	200,000,000
Statutory reserve	16	52,542,073	44,932,252
Retained earnings		420,204,283	351,715,890
Other reserves		(1,505,587)	(589,154)
Total equity		<u>671,240,769</u>	<u>596,058,988</u>
Total liabilities and equity		<u>874,731,430</u>	<u>798,664,604</u>

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

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020
(Amounts in Saudi Riyals)

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Revenue			
Income from brokerage services, net		84,696,145	35,266,147
Income from asset management services, net		51,940,500	65,739,128
Income from advisory services		5,011,250	1,445,205
Income from custody services, net		21,727,727	18,784,504
Special commission income		9,691,485	22,090,982
Income from investments held at FVTPL	6	7,699,071	32,506,830
Total revenue		<u>180,766,178</u>	<u>175,832,796</u>
Foreign exchange revaluation		(68,505)	9,392
Dividend income	18	140,638	3,321,952
Other income		517,226	-
Total other income		<u>589,359</u>	<u>3,331,344</u>
Total operating income		<u>181,355,537</u>	<u>179,164,140</u>
Operating expenses			
Salaries and employee related expenses		(67,265,207)	(59,297,106)
General and administrative expenses	19	(27,342,629)	(24,309,015)
Finance cost on lease liability		(236,310)	--
Special commission expense on short-term murabaha financing	11	(357,717)	(6,248,189)
Impairment allowance for expected credit losses, net	20	(1,600,103)	(695,578)
Total operating expenses		<u>(96,801,966)</u>	<u>(90,549,888)</u>
Net income for the year before zakat		84,553,571	88,614,252
Zakat charge for the year	13	(8,455,357)	(8,861,425)
Net income for the year		<u>76,098,214</u>	<u>79,752,827</u>
Other comprehensive income:			
<i>Items that will not be reclassified subsequently to the statement of income:</i>			
FV changes on equity investments held at fair value through other comprehensive income (FVOCI)		-	120,643
Re-measurement loss on employees' end of service benefits	14	(916,433)	(185,214)
Other comprehensive loss for the year		<u>(916,433)</u>	<u>(64,571)</u>
Total comprehensive income for the year		<u>75,181,781</u>	<u>79,688,256</u>

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

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020
(Amounts in Saudi Riyals)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Other reserves</u>		<u>Total</u>
				<u>Investment revaluation reserve</u>	<u>Actuarial reserve</u>	
Balance as at 1 January 2020	200,000,000	44,932,252	351,715,890	--	(589,154)	596,058,988
Total comprehensive income for the year:						
- Net income for the year	--	--	76,098,214	--	--	76,098,214
- Other comprehensive income for the year	--	--	--	--	(916,433)	(916,433)
Total comprehensive income for the year	--	--	76,098,214	--	(916,433)	75,181,781
Transfer to statutory reserve	--	7,609,821	(7,609,821)	--	--	--
Balance as at 31 December 2020	200,000,000	52,542,073	420,204,283	--	(1,505,587)	671,240,769
Balance as at 1 January 2019	200,000,000	36,956,969	281,075,936	(1,258,233)	(403,940)	516,370,732
Total comprehensive income for the year:						
- Net income for the year	--	--	79,752,827	--	--	79,752,827
- Other comprehensive income for the year	--	--	--	120,643	(185,214)	(64,571)
Total comprehensive income for the year	--	--	79,752,827	120,643	(185,214)	79,688,256
Transfer of fair value reserve on disposal of investment held at FVOCI	--	--	(1,137,590)	1,137,590	--	--
Transfer to statutory reserve	--	7,975,283	(7,975,283)	--	--	--
Balance as at 31 December 2019	200,000,000	44,932,252	351,715,890	--	(589,154)	596,058,988

The accompanying notes (1) through (27) form an integral part of these financial statements.

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(Amounts in Saudi Riyals)

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:			
Net income for the year before zakat		84,553,571	88,614,252
<u>Adjustments for:</u>			
Provision for employees' end of service benefits	14	2,103,876	2,014,644
Depreciation	9	4,188,630	1,287,422
Amortization	10	1,090,040	1,946,806
Special commission expense on short-term murabaha financing	11	357,717	6,248,189
Unrealised loss / (gain) on investments held at FVTPL	6	4,370,307	(32,506,830)
Realised gain on sale of investments held at FVTPL		(12,069,378)	--
Special commission income on investments held at amortised cost		(653,247)	(303,167)
Foreign exchange (gain) / loss		68,505	(9,392)
Impairment allowance for expected credit losses, net		1,600,103	695,578
Finance cost on lease liability		236,310	--
		<u>85,846,434</u>	<u>67,987,502</u>
<u>Changes in operating assets and liabilities:</u>			
Decrease in receivable against margin lending		33,077,331	86,319,664
Increase in other assets		(3,701,919)	(33,222,517)
Increase in accrued expenses and other liabilities		12,193,798	8,387,974
		<u>41,569,210</u>	<u>61,485,121</u>
Zakat paid		(8,861,425)	(1,792,823)
Employees' end of service benefits paid		(409,402)	(693,280)
Lease paid		(2,154,600)	--
Net cash generated from operating activities		<u>115,990,217</u>	<u>126,986,520</u>
Cash flows from investing activities:			
Purchase of investments held at FVTPL	6	(223,619,021)	(37,254,910)
Purchase of investments held at amortised cost	7	(28,079,724)	--
Proceeds from sale of investments held at amortised cost		1,000,000	1,000,000
Proceeds from sale of investments held at FVTPL		196,848,802	--
Proceeds from sale of investments held at FVOCI		--	1,254,059
Purchase of property and equipment	9	(1,125,666)	(605,849)
Additions to intangible assets	10	--	(454,129)
Special commission received on investments held at amortised cost		356,944	312,695
Net cash used in investing activities		<u>(54,618,665)</u>	<u>(35,748,134)</u>
Cash flows from financing activities:			
Proceeds from short-term murabaha financing	11	--	20,000,000
Repayments of short-term murabaha financing	11	(20,000,000)	(180,000,000)
Repayment of profit for short-term murabaha financing		(387,350)	(6,466,993)
Net cash used in financing activities		<u>(20,387,350)</u>	<u>(166,466,993)</u>
Net increase / (decrease) in cash and cash equivalents		<u>40,984,202</u>	<u>(75,228,607)</u>
Cash and cash equivalents at the beginning of the year		284,386,611	359,615,218
Cash and cash equivalent at the end of the year		<u>325,370,813</u>	<u>284,386,611</u>

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

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

1. GENERAL INFORMATION

AlBilad Investment Company (“the Company”) is a Saudi Closed Joint Stock Company. The Company was registered as a limited liability company in the Kingdom of Saudi Arabia under commercial registration number 1010240489 dated 11 Dhul Qa’adah 1428H (corresponding to 20 November 2007) issued in Riyadh. The Company was converted from a limited liability Company to a Saudi Closed Joint Stock Company on 16 Shawwal 1438H (Corresponding to 10 July 2017) which is the date of its new commercial registration.

The Company was formed in accordance with Capital Market Authority’s (“CMA”) letter No. 2-38-2007 dated 8 Rajab 1428H (corresponding to 22 July 2007).

The licensed activities are to act as a principal, underwriter and agent to provide dealing of securities, managing, arranging, advisory and custody services for securities activities. In the ordinary course of its business, the Company provides brokerage services in Saudi stock exchange and international stock exchanges, establishment and management of mutual funds and portfolio management, underwriting, arranging, advisory, receivable against margin lending, murabaha, custody services and equity swap facilities.

2. BASIS OF PREPARATION

a) Statement of compliance

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.

b) Basis of measurement and presentation

The financial statements have been prepared under the historical cost convention except for certain financial instruments that are measured at fair value. The company does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity.

Furthermore, the employee benefit obligation is measured at present value of defined benefit obligation and have been calculated using the projected unit credit method and actuarial assumptions.

c) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (“SAR”) which is the functional and presentation currency of the Company.

d) Critical accounting judgements, estimates and assumptions

The preparation of the financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. 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.

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

2. BASIS OF PREPARATION (CONTINUED)

d) Critical accounting judgements, estimates and assumptions (continued)

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 has ended the lockdowns and has taken phased measures towards normalization.

Recently, number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. The Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time and is closely monitoring its exposures at a granular level. The Company has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Company believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Company. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements.

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

i. Expected credit loss on financial assets

The measurement of the Expected Credit Loss Allowance (“ECL”) for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the input, assumptions and estimation techniques used in measuring ECL is further detailed in note 3, which also sets out key sensitivities of the ECL to changes in these elements. A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weights of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgments and estimates by the Company in the above is set out in note 3.

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

2. BASIS OF PREPARATION (CONTINUED)

d) Critical accounting judgements, estimates and assumptions (continued)

ii. Provisions for legal claims

The Company receives legal claims in the normal course of its business. Judgments is made as to the likelihood of any claim succeeding in making the provision. The time of concluding legal claims are uncertain, as this pertains to estimate for possible outflow of economic benefits. Timing and cost ultimately depend on the due process being followed as per the laws and regulations.

iii. Assumptions for employee benefit obligations

The Company operates a defined benefit plan under the Saudi Arabian Labour 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.

iv. Determination of control over mutual funds

The Company acts as a fund manager of a number of mutual funds. Determining whether the Company controls such a mutual fund usually focuses on the assessment of its aggregate economic interests of the Company in the Fund (comprising any carried profits and expected management fees) and the investor's rights to remove the Fund Manager. As a result, the Company has concluded that it acts as an agent for the investors in all cases, and therefore, does not control these mutual funds.

v. Investment entity

Management believes that the Company meets the definition of an investment entity and therefore, it does not consolidate its managed funds. In determining whether the Company meets the definition of an investment entity the management considers that it obtains funds from investors for the purpose of providing investment management services, commits to its investors that its business purpose is to invest funds solely for return from capital appreciation or investment income or both, and measures and evaluates the performance of substantially all of its investments on fair value basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below.

Change in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual audited financial statements for the year ended 31 December 2019. Based on the adoption of new standard and in consideration of current economic environment, the following accounting policies are applicable effective 1 January 2020 replacing, amending or adding to the corresponding accounting policies set out in 2019 annual audited financial statements.

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

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after 1 January 2020. The management has assessed that the amendments have no significant impact on the Company's financial statements.

- Amendments to IFRS 3: Definition of a Business;
- Amendments to IAS 1 and IAS 8: Definition of Material;
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform – Phase 1

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Company's accounting year beginning on or after 1 January 2021 are listed below. The Company has opted not to early adopt these pronouncements and they do not have a significant impact on the financial statements.

- COVID-19 – Related Rent Concessions (Amendments to IFRS 16);
- IFRS 17 – Insurance contracts, applicable for the period beginning on or after January 1, 2023;
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current, applicable for the period beginning on or after January 1, 2022;
- Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37);
- Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16); and
- Reference to Conceptual Framework (Amendments to IFRS 3)

The management of the Company anticipates that the application of these new standards and amendments in the future will not have significant impact on the amounts reported.

a) Cash and bank balances

Cash and bank balances include cash on hand, bank balances, short-term deposits, demand deposits and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value.

b) Financial instruments

i. Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. The Company records investments on a 'trade date' basis.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through statement of income, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost, which results in an impairment charge being recognised in the statement of comprehensive income when an asset is newly originated.

ii. Classification and subsequent measurement of financial assets

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

- Amortised cost;
- Fair value through other comprehensive income ("FVOCI"); and
- Fair value through statement of income ("FVTPL").

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective. Classification and subsequent measurement of debt instruments depend on:

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For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

ii. Classification and subsequent measurement of financial assets (continued)

- The Company's business model for managing the asset; and
- The cash flow characteristics of the asset.

The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of other business model and measured at FVTPL.

Factors considered by the Company in determining the business model for a group of assets include:

- past experience on how the cash flows for these assets were collected;
- how the asset's performance is internally evaluated and reported to key management personnel;
- how risks are assessed and managed; and
- how managers are compensated.

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 realised 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 originated or newly purchased financial assets going forward.

Debt securities held for trading, if any, are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVTPL.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payment of principal and profit ("SPPP"). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. profit (or special commission income) includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

Amortised cost:

Assets that are held for collection of contractual cash flows where those cash flows represent SPPP, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 3b(iii). Profit earned from these financial assets is recognised in the statement of income using the effective commission rate method.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

ii. Classification and subsequent measurement of financial assets (continued)

FVTPL:

If debt instrument's cash flows do not represent solely SPPI or if it not held within the held to collect or the held to collect and sell business model, or if it is designated at FVTPL, then it is measured at FVTPL. A gain or loss on a debt instrument measured at FVTPL is recognised in the statement of income, within "Net gain / (loss) in investments mandatorily measured at FVTPL", in the period in which it arises. A gain or loss from debt instruments that were designated at fair value or which are not held for trading are presented separately from debt investments that are mandatorily measured at fair value through statement of income, within "Net gain / (loss) in investments designated at FVTPL".

FVOCI:

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured FVOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, the commission revenue and foreign exchange gains and losses on the instrument's amortised cost are recognized in statement of income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to statement of income.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Currently investment in Sukuk is classified as held at amortised cost. There are no debt securities classified as FVTPL or FVOCI.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Company subsequently measures all equity investments at FVTPL, except where the Company has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to trade. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to the statement of income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in the statement of income when the Company's right to receive payments is established.

Currently investment in mutual funds have been classified as FVTPL and shares have been designated as held at FVOCI under irrevocable option by the Company.

iii. Impairment allowance for Expected Credit Losses ("ECL")

The Company assesses on a forward-looking basis, the ECL associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

iii. Impairment allowance for ECL (continued)

Significant increase in credit risk:

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Company historical experience and expert credit assessment.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the 12 month probability of default (PD) as at the reporting date; with
- the 12 month probability of default (PD) at the time of initial recognition of the exposure.

Definition of default:

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to Company in full, or the borrower is past due more than 90 days on any material credit obligation to Company.

In assessing whether a borrower is in default the Company considers indicators that are:

- Qualitative- e.g. breaches of covenant;
- Quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to Company;

Measurement of ECL:

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default ("PD");
- loss given default ("LGD"); and
- exposure at default ("EAD").

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. The Company has never suffered any loss on liquidations since incorporation by recovering the amounts fully. Therefore, the historical experience relating to LGD has been 0%. Given the nature and extent of the collateral pledged against the Company's margin finance exposures, the management considers the credit risk of the exposures to be minimal. In accordance with the policy of the Company, the margin finance facilities should be 200% collateralized and the facility is liquidated if the collateral coverage ratio drops below the liquidation level of 143%.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

iii. Impairment allowance for ECL (continued)

Hence, even though there might be small probability of default, the ECL would result in zero impairment provision, as the pledged collateral (in the form of cash or liquid securities) covers the exposure at least to 143%. The over-collateralised nature of the exposure has been observed and expected to result in a LGD of zero. EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

iv. 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.

v. Fair valuation of financial instruments

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

vi. Derecognition 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 expired.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) 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.

d) Accruals and other liabilities

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company. These are carried at amortised cost.

e) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

f) Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	<u>Years</u>
Leasehold improvements	10 years
Office furniture and equipment	4 years
Motor vehicles	4 years
Computers hardware	5 years
Fixture and fittings	5 years
Safe box	5 years

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognized. Normal repair and maintenance are charged to the statement of income as and when incurred.

Capital work in progress is stated at cost incurred until the asset is ready for its intended use, thereafter, this cost is capitalized on the related assets. This includes the cost of contractors, materials, services and capital advances. Capital work in progress is not depreciated.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortisation of intangible assets is calculated on a straight-line basis over the estimated useful life of 5 years.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in 'general and administrative expenses.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

h) Impairment of non-financial assets

Property and equipment and other non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's ("CGU") fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Employees' end of service benefits (EOSB)

The employees' EOSB provision is made based on an actuarial valuation of the Company's liability under the Saudi Arabian Labor Law.

In accordance with the provisions of IAS 19 "Employee benefits", management carries out an exercise to assess the present value of its obligations, using the projected unit credit method. Under this method an assessment is made of the employees' expected service life with the Company and expected salary at the date of leaving the service.

The cost of providing benefits under the Company's defined benefit plans is determined using the projected unit credit method by professionally qualified actuaries and arrived at using actuarial assumptions based on market expectations at the date of statement of financial position. These valuations attribute entitlement benefits to the current period (to determine current service cost), and to the current and prior periods (to determine the present value of defined benefit obligations). Re-measurements, comprising of actuarial gains and losses, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through statement of other comprehensive income in the period in which these occur. Re-measurements are not reclassified to statement of income in subsequent periods.

Past service costs are recognized in statement of income on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Company recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability. The defined benefit liability in the statement of financial position comprises the present value of the defined benefit obligation (using a discount rate).

j) Statutory reserve

As required by Saudi Arabian Regulations for Companies, 10% of the net income for the year is transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve equals 30% of the share capital. The reserve is not available for distribution.

k) Zakat and income tax

The Company is subject to Zakat and income tax in accordance with the regulations of the General Authority of Zakat and Tax (GAZT). Zakat and income taxes are charged to the statement of income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

l) Assets held in trust or in a fiduciary capacity

Assets held in trust or in a fiduciary capacity by the Company are not treated as assets of the Company and accordingly are treated as off-balance sheet items in these financial statements.

ALBILAD INVESTMENT COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Revenue recognition

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, the Company recognises revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company recognises revenue when the amount can be reliably measured, and it is probable that future economic benefits will flow to the Company. The Company applies the following five-step approach of revenue recognition:

- Step 1: Identify the contract with the customer
- Step 2: Identify the separate performance obligations under the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to separate performance obligations
- Step 5: Recognise revenue when (or as) each performance obligation is satisfied

Based on the above five steps the revenue recognition policies for the various revenue streams is as follow:

Brokerage income - Income on brokerage transaction is recognized on accrual basis net of expenses. The moment the transactions is executed / concluded, the agent (in this case the Company) has satisfied its performance obligation, which is considered as a performance obligation satisfied at a point in time and not over a period of time. Thus, upon rendering of services the revenue from brokerage – is to be recognized. Brokerage income earned on a daily buy and sell transactions is recognized on the trade date.

Asset management fees - Asset management fees are recognized 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 period, because the fee relates specifically to the Company’s efforts to transfer the services for that period. As asset management fees are not subject to clawbacks, the management does not expect any significant reversal of revenue previously recognized.

Subscription fees - This fee compensates and contributes to the Fund Manager separate performance obligation, the Fund Manager service is generally satisfied upon the investor’s subscription and trigger immediate recognition of the revenue, assuming no further commitments remain.

Advisory and investment banking services revenue - Advisory and investment banking services revenue is recognised based on services rendered as being complete in accordance with the underlying agreement / contract using the five-step approach to revenue recognition above.

Normally revenue recognition of retainer fees is recognized over a period of time, in case if an advance payment is received to perform future obligations. Generally, it is linked to timing of performance obligation, for example, monthly, quarterly etc.

In some cases, accrual of the retainer fees is linked to some milestones such as, submitting a report, or certification by a third party. If the terms of retainer fees are linked to such performance obligations, then income is recognised upon satisfaction of such performance obligations, that is, on fulfilment of terms as per the contract with the customers.

Success fees are recognised upon fulfilment of performance obligations. For example, either on getting the sanction letter or disbursement of the loan as the case may be.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Revenue recognition (continued)

Underwriting fees are recognized when the Company has rendered all services to the issuer and is entitled to collect the fee from the issuer with no contingencies associated with the fees. Underwriting revenues are presented net of transaction-related expenses.

Custody fee - Generally revenue for the custody fees is recognised based on a time proportionate basis. The Company provides a non-restrictive legal custodial structure in line with CMA requirements and conducive for efficient operations of the mutual funds under management, while tailored for specific requirements of Fund Managers on a case by case basis.

Dividend income - Dividend income is recognised when the right to receive dividend is established.

Special commission income

Margin finance fees – Income from receivable against margin lending facilities is recognized on a time proportionate basis over the period of the contract based on the principal amounts outstanding and the profit rate agreed with the customer.

Income from murabaha and sukuks – Income is recognised on an effective commission rate basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective commission rate, the Company estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses. The carrying amount of the financial asset is adjusted, if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective commission rate and the change in carrying amount is recorded as impairment losses.

n) Expenses

Expenses, other than employee's costs and financial charges are classified as general and administrative expenses. These also include expenses allocated by Bank AlBilad.

o) Special commission expense on short-term Murabaha financing

Special commission expense on short term murabaha financing is recognized on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit rate agreed with Bank AlBilad.

p) Leases

Right-of-use assets / lease liabilities

On initial recognition at the 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 a consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Leases (continued)

Right of use assets

The Company applies cost model and measures the 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, the right-of-use assets would equate 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 right-of-use assets value.

Lease liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor.

After the commencement date, the Company measures the lease liability by:

- 1. Increasing the carrying amount to reflect the 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 any lease modification.

Short-term and low values leases

Payments associated with short-term leases and leases of low value assets are recognised on a straight-line basis as an expense in the statement of income. Short-term leases are leases with a lease term of 12 months or less.

q) 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.

r) 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 obligations cannot be measured with reasonable reliability. Contingent assets are not recognized but are disclosed where an inflow of economic benefits is probable.

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4. CASH AND BANK BALANCES

	<u>Note</u>	31 December 2020	31 December <u>2019</u>
Cash in hand		10,000	15,000
Cash at Bank AlBilad - current accounts	4.1	35,460,104	17,308,705
Less: allowance for ECL		(8,584)	(3,571)
		35,451,520	17,305,134
Murabaha deposit with banks	4.2	289,909,293	267,066,477
		325,370,813	284,386,611

At 31 December 2020, murabaha deposits are placed with banks have an original maturity from 1 to 3 months (2019: from 1 to 3 months) with average rate between 0.3% to 0.45%.

4.1 This represents account maintained with Bank AlBilad. At 31 December 2020, Bank AlBilad had a A3 (2019: "A3") rating as per Moody's.

4.2 Murabaha deposit with banks

	31 December 2020	31 December <u>2019</u>
Principal amount outstanding	290,000,000	267,000,000
Accrued profit on outstanding amount	24,958	187,770
Less: allowance for ECL	(115,665)	(121,293)
	289,909,293	267,066,477

5. RECEIVABLE AGAINST MARGIN LENDING

The Company extends receivable against margin lending facilities to its customers to invest in the Saudi stock exchange. These facilities are backed by collaterals and extended up to a maximum period of one year and bear prevailing profit rates on the amount of receivable against margin lending.

During the year, certain directors of the Company have been granted receivable against margin lending facilities with total transactions during the year amounting to SAR 11.44 million (2019: SAR 119.6 million). The outstanding balances were SAR 30.72 million (2019: SAR 51.8 million).

	31 December 2020	31 December <u>2019</u>
Gross receivable against margin lending	112,555,896	143,450,273
Accrued profit	2,720,773	4,903,727
	115,276,669	148,354,000

6. INVESTMENTS HELD AT FVTPL

As at 31 December 2020, investments held at fair value through statement of income comprise of investment in units of various public and private funds which are recorded at fair value.

	31 December 2020	31 December <u>2019</u>
Opening balance	273,403,928	203,632,796
Additions	223,619,021	37,254,910
Disposals	(196,848,802)	--
Unrealized (loss) / gain	(4,370,307)	32,506,830
Realized gain	12,069,378	--
Foreign exchange gain	--	9,392
Closing balance	307,873,218	273,403,928

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6 INVESTMENTS HELD AT FVTPL (CONTINUED)

Following is the breakdown of the investments:

	31 December 2020	31 December 2019
<i>Investment funds:</i>		
ABIC Makkah Hospitality Fund	204,522,527	204,522,527
AlBilad SAR Murabaha Fund	55,156,702	--
AlBilad Gold ETF	13,166,292	--
AlBilad Saudi Sovereign Sukuk ETF	11,413,819	--
Canary Al Khozama Residential Compound Real Estate Fund	11,100,158	13,698,782
The Second Commercial Complex Fund	4,769,981	5,863,950
AlBilad GCC Equity Income Fund	4,572,740	4,311,320
Al Dhahiyah Investment Fund	3,170,999	5,586,540
AlBilad USD Murabaha Fund	--	19,005,947
AlBilad Investment Fund 3	--	7,849,435
<i>Equity investment:</i>		
ARAMCO	--	12,565,427
Total	307,873,218	273,403,928

7 INVESTMENTS HELD AT AMORTIZED COST

During the year ended 31 December 2020, the Company purchased sukuks, amounting to SAR 28.1 million that will mature by 2030 carrying a profit rate of between 2.94% to 3.32% per annum.

	31 December 2020	31 December 2019
Opening Balance	3,285,246	4,294,774
Purchases During the period	28,103,321	-
Income during the period	653,247	303,167
Settlement on principal	(1,000,000)	(1,000,000)
Profit Received during the period	(356,944)	(312,219)
Less: allowance for ECL	(23,597)	(476)
	30,661,273	3,285,246

8 OTHER ASSETS

	31 December 2020	31 December 2019
Receivable from funds and discretionary portfolios:		
- Management fees from funds	51,642,421	44,139,228
- Outstanding loans to private funds	17,318,741	20,189,874
- Discretionary portfolios - local	1,309,243	4,983,463
Investment banking and security's custody income receivable	9,500,691	10,411,812
Prepayments	2,193,665	1,422,374
Others	3,317,066	524,644
Less: allowance for ECL	(2,680,505)	(1,103,384)
	82,601,322	80,568,011

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9 PROPERTY AND EQUIPMENT, NET AND RIGHT-OF-USE-ASSETS

	Leasehold improvements	Office furniture and equipment	Fixture and fittings	Computer hardware	Motor vehicles	Safe box	Capital work-in- progress	Right-of- use assets	Total
Cost:									
At the beginning of the year	6,777,355	2,524,813	432,768	1,238,881	501,850	28,000	--	--	11,503,667
Additions during the year	--	87,363	37,655	436,903	--	--	563,745	8,434,331	9,559,997
At the end of the year	6,777,355	2,612,176	470,423	1,675,784	501,850	28,000	563,745	8,434,331	21,063,664
Accumulated depreciation:									
At the beginning of the year	2,347,865	1,349,706	390,063	902,269	410,541	28,000	--	--	5,428,444
Charge for the year	1,425,094	369,584	21,858	172,202	91,309	--	--	2,108,583	4,188,630
At the end of the year	3,772,959	1,719,290	411,921	1,074,471	501,850	28,000	--	2,108,583	9,617,074
Net book value									
As at 31 December 2020	3,004,396	892,886	58,502	601,313	--	--	563,745	6,325,748	11,446,590
	Leasehold improvements	Office furniture and equipment	Fixture and fittings	Computer hardware	Motor vehicles	Safe box	Capital work-in- progress	Right-of- use assets	Total
Cost:									
At the beginning of the year	6,712,025	2,445,353	300,605	836,215	501,850	28,000	73,770	--	10,897,818
Additions during the year	65,330	79,460	132,163	402,666	--	--	(73,770)	--	605,849
At the end of the year	6,777,355	2,524,813	432,768	1,238,881	501,850	28,000	-	--	11,503,667
Accumulated depreciation:									
At the beginning of the year	1,678,619	975,085	359,324	791,198	308,796	28,000	--	--	4,141,022
Charge for the year	669,246	374,621	30,739	111,071	101,745	--	--	--	1,287,422
At the end of the year	2,347,865	1,349,706	390,063	902,269	410,541	28,000	--	--	5,428,444
Net book value									
As at 31 December 2019	4,429,490	1,175,107	42,705	336,612	91,309	--	-	--	6,075,223

9.1 Capital work-in-progress includes advances given to suppliers for construction of certain leasehold improvements.

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9 PROPERTY AND EQUIPMENT, NET AND RIGHT-OF-USE-ASSETS (CONTINUED)

- 9.2 Right-of-use assets balance include asset recognized upon adoption of IFRS 16 Leases. The movement of corresponding lease liability is as follows:

LEASE LIABILITY

	31 December 2020	31 December 2019
Additions during the year	8,434,331	--
Payment during the year	(2,154,600)	--
Finance cost on lease liability	236,310	--
Lease liability at the end of the year	6,516,041	--

10 INTANGIBLE ASSETS, NET

	31 December 2020	31 December 2019
Cost:		
At the beginning of the year	9,218,063	8,763,934
Additions during the year	--	454,129
At the end of the year	9,218,063	9,218,063
Accumulated amortisation:		
At the beginning of the year	6,626,478	4,679,672
Charge for the year	1,090,040	1,946,806
At the end of the year	7,716,518	6,626,478
Net book value as at 31 December	1,501,545	2,591,585

Intangible assets represent cost of various software used by the Company for the purpose of accounting and record keeping of the various revenue streams that encompass the Company's business activities.

11 SHORT-TERM MURABAHA FINANCING

This represents murabaha financing obtained from Bank AlBilad to finance the Company' margin customer. It also includes the purchase of a commodity by Bank AlBilad at the request of the Company.

During the year, the Company repaid the short-term murabaha amounting to SAR 20 million that carried special commission rate at SIBOR + agreed spread and was repayable by 16 June 2020. There were no covenants on the murabaha financings obtained from the Bank AlBilad.

	31 December 2020	31 December 2019
	<i>Note</i>	
Opening balance	20,029,633	180,248,437
Receipts during the year	21.1 -	20,000,000
Repayments during the year	21.1 (20,000,000)	(180,000,000)
Repayments of opening accrued profit during the year	(29,633)	(248,437)
Accrued profit at the end of year	-	29,633
Closing balance	-	20,029,633

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11 SHORT-TERM MURABAHA FINANCING (CONTINUED)

Movement of special commission expense on short-term murabaha financing is as follows:

	<u>Note</u>	31 December 2020	31 December <u>2019</u>
Opening balance		29,633	248,437
Special commission charged during the year	21.1	357,717	6,248,189
Repayments during the year		(387,350)	(6,466,993)
Closing balance		-	29,633

12 ACCRUALS AND OTHER LIABILITIES

	<u>Note</u>	31 December 2020	31 December <u>2019</u>
Due to Bank AlBilad	12.1, 21.2	134,168,565	131,668,565
Employee accrued benefits		20,231,689	13,794,347
Contracts accruals		7,707,458	7,647,319
Legal and overdrawn account provision	12.2	6,918,174	6,918,174
Others		7,604,365	4,408,048
		176,630,251	164,436,453

12.1 Payable to Bank AlBilad is in respect of expenses paid by Bank AlBilad on behalf of the Company. This balance carries no commission and has no fixed maturity date.

12.2 Movement of legal and overdrawn account provision is as follows:

	31 December 2020	31 December <u>2019</u>
Opening balance	6,918,174	6,203,740
Charge during the year	--	714,434
Write-off during the year	--	--
Closing balance	6,918,174	6,918,174

13 ZAKAT PAYABLE

Effective 1 January 2009, Bank AlBilad has started to submit zakat return based on its consolidated financial statements (including the Company) and settle zakat liability accordingly. The Company's share of the zakat liability for the year ended 31 December 2020 amounting to SAR 8.45 million (2019: SAR 8.86 million) has been charged to statement of income. In prior years, the Company received final zakat assessments from the GAZT in respect of all years up to 2008.

	31 December 2020	31 December <u>2019</u>
Opening balance	8,861,425	1,792,823
Charge for the year	8,455,357	8,861,425
Payment during the year	(8,861,425)	(1,792,823)
Closing balance	8,455,357	8,861,425

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14 EMPLOYEES' END OF SERVICE BENEFITS (EOSB)

	31 December 2020	31 December 2019
Opening balance	9,278,105	7,771,527
<u>Charge for the year:</u>		
• Amount recognised in statement of income	2,103,876	2,014,644
• Amount recognised in other comprehensive income	916,433	185,214
Payments during the year	<u>(409,402)</u>	<u>(693,280)</u>
Closing balance	<u>11,889,012</u>	<u>9,278,105</u>

The amounts recognised in the statement of financial position and the movements in the end of service obligation over the year are as follows:

	31 December 2020	31 December 2019
Balance at the beginning of the year	9,278,105	7,771,527
Current service cost	1,885,912	1,699,086
Interest expense	217,964	315,558
Re-measurements due to actuarial loss	916,433	185,214
Benefits paid	<u>(409,402)</u>	<u>(693,280)</u>
Balance at the end of the year	<u>11,889,012</u>	<u>9,278,105</u>

14.1 Key actuarial assumptions

	31 December 2020	31 December 2019
End of service benefits:		
Discount rate	2.11%	2.40%
Salary growth rate	4.11%	2.40%
Weighted average duration of liability (in years)	6.39	6.18

14.2 Sensitivity analysis for actuarial assumptions

31 December 2020	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
End of service benefits:				
Discount rate	3.11%	1.11%	(713,248)	805,120
Salary growth rate	5.11%	3.11%	854,376	(770,829)
Mortality	10%	10%	(1,797)	1,803
31 December 2019	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
End of service benefits:				
Discount rate	3.40%	1.40%	(538,477)	608,181
Salary growth rate	3.40%	1.40%	650,033	(586,207)
Mortality	10%	10%	(1,277)	1,283

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14 EMPLOYEES' END OF SERVICE BENEFITS (EOSB) (CONTINUED)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method used for calculating the employees' EOSB (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied.

14.3 Expected maturity

Expected maturity analysis of undiscounted end of service benefits is as follows:

	Less than a year	1 - 2 years	2 - 5 years	Over 5 years	Total
31 December 2020	1,804,869	1,340,974	3,307,850	7,261,305	13,714,998
31 December 2019	1,429,629	1,455,828	2,383,761	5,651,127	10,920,345

15 SHARE CAPITAL

The authorized and paid-up share capital of the Company as at 31 December comprise of 200,000 shares at a nominal value of SAR 1,000 per share. Bank AlBilad has a 100% direct ownership interest in the Company.

The Company's ownership structure is set out below:

Shareholder	Country of origin		31 December 2020	31 December 2019
		Number of shares	200,000	200,000
Bank AlBilad	Saudi Arabia	Share capital (SAR)	200,000,000	200,000,000

16 STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws, a minimum of 10% of the annual net income is required to be transferred to a statutory reserve until this reserve equals 30% of the share capital. This reserve is not available for distribution to the shareholder of the Company.

17 CONTINGENCIES AND COMMITMENTS

Bank AlBilad has issued, on the Company's behalf, letter of guarantee amounting to SAR 100 million (2019: SAR 100 million), in favour of the Saudi stock exchange which is outstanding at the reporting date.

There are certain pending legal cases which are in the ordinary course of business and the impact is not material to the financial statements.

18 DIVIDEND INCOME

This dividend income represents dividends from equity shares portfolio and mutual funds.

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19 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>Note</i>	31 December 2020	31 December <u>2019</u>
Custody expense		4,638,943	2,524,352
Subscription for services		3,775,810	2,911,734
Outsourcing services fees	21.1	2,500,000	2,500,000
Legal and consultation		2,486,891	2,236,663
Depreciation	9	4,188,630	1,287,422
Board of Directors expenses		1,887,000	2,231,780
Advertisement and marketing		1,418,395	885,523
Premises expenses		1,044,159	3,308,163
Amortisation	10	1,090,040	1,946,806
Software license maintenance fees		999,876	863,400
Communication expenses		803,647	1,077,705
Employee travel		316,233	509,863
Others		2,193,005	2,025,604
		<u>27,342,629</u>	<u>24,309,015</u>

20 IMPAIRMENT ALLOWANCE FOR EXPECTED CREDIT LOSSES, NET

	31 December 2020	31 December 2019
Opening balance	1,228,724	533,146
Charge for the year	<u>1,600,103</u>	<u>695,578</u>
Closing balance	<u>2,828,827</u>	<u>1,228,724</u>

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21 RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of business, the Company transacts with its related parties. The principal related parties of the Company are Bank Albilad, investment funds managed by the Company and companies owned by members of the Board of Directors. The details of transactions during the year ended 31 December 2020 and balances as at 31 December 2020 resulting from such transactions are as follows:

21.1 Related party transactions

	<i>Note</i>	31 December 2020	31 December 2019
<u>A) Bank Albilad - Parent Company:</u>			
Short-term murabaha financing	11	-	20,000,000
Repayment of short-term murabaha financing	11	(20,000,000)	(180,000,000)
Asset management income		644,698	4,998,318
Outsourced services at a fixed annual fee	19	2,500,000	2,500,000
Premises related expenses		433,662	433,668
Income from murabaha deposits with banks		300,934	1,391,306
Custody revenue from Sukuk		120,000	120,000
Advisory Services		337,500	-
Letter of guarantee commission expense		137,500	137,500
Special commission expenses on short-term murabaha financing	11	357,717	6,248,189
<u>B) Investment funds:</u>			
Asset management services income from private funds		32,399,348	43,509,054
Subscription fee from private funds		-	2,174,952
Dividends from private funds		-	3,141,046
Asset management services income from public funds		15,448,296	13,002,289
Subscription fee from public funds		301,621	47,844
Dividends from public funds		114,330	180,684
<u>C) Board of Directors and Companies owned by Directors / Direct relations</u>			
Receivable against margin lending		11,442,703	119,586,559
Board of Directors' remunerations		1,887,000	1,720,500
Receivable against margin lending income		1,411,986	3,847,769
Brokerage commission income		34,562	230,721
Early settlement of Directors' receivable from Tadawul		5,730,755	24,818,319
Rent and premises		2,154,600	2,257,200
<u>D) Key management personnel:</u>			
key management personnel compensation	21.1.1	13,796,534	12,280,946

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21 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

21.2 Related party balances

	<i>Note</i>	31 December 2020	31 December 2019
<u>a) Bank AlBilad – Parent Company:</u>			
Bank balances	4	35,460,104	17,308,705
Short-term murabaha financing	11	-	(20,000,000)
Payable to the Bank AlBilad	21.1.2, 12	(134,168,565)	(131,668,565)
Accrued special commissions expenses on short term murabaha financing		-	(29,633)
Outstanding letter of guarantee issued on behalf of the Company	17	(100,000,000)	(100,000,000)
Outstanding management fees		74,916	4,125,698
Advisory Service fees		64,688	
<u>B) Investment funds:</u>			
Management fee receivable		51,642,421	44,088,396
Outstanding loan from private funds		17,318,741	20,189,874
Investments held at FVTPL		307,873,218	260,838,501
<u>C) Board of Directors and Companies owned by Directors</u>			
Receivable against margin lending outstanding		30,719,036	51,806,331
Receivable against margin lending income receivable		1,184,063	2,302,035
Board of Directors' remunerations		(1,726,500)	(876,000)
<u>D) Key management personnel:</u>			
key management personnel compensation		(1,748,574)	(608,412)

- 21.1.1 Key management personnel are those persons, including executive directors, having authority and responsibility for planning, directing and controlling the activities at the Company level.
- 21.1.2 Payable to Bank AlBilad is in respect of expenses paid by Bank AlBilad on behalf of the Company. This balance carries no commission and has no fixed maturity date.

22 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and cash flow and fair value commission rate risk), credit risk, liquidity risk and operational risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Financial instruments carried on the statement of financial position include cash and bank balances, investments held at FVTPL, investments held at FVOCI, investments held at amortised cost, receivable against margin lending, other assets, short-term murabaha financing, accruals and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and financial liabilities are offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right to off-set the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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22 FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management responsibilities are held as follows:

Business Unit Management: Primarily responsible for risk management. The process of assessing, evaluating and measuring risk is ongoing and is integrated into the day-to-day activities of the business. This process includes implementing the Company's risk management framework, identifying issues and taking remedial action where required. Business unit management is also accountable for reporting to the governance bodies within the Company.

Risk Function: Primarily accountable for risk management reporting, providing oversight and independent reporting to management and the Board.

Internal Audit Function: Provides an independent assessment of the adequacy and effectiveness of the overall risk management framework and risk governance structures, and reports to the Board through the Company's Audit Committee.

Compliance and AML Function: Responsible for monitoring and assessment of business compliance with CMA Prudential Rules, including Anti Money Laundering & Counter terrorist financing regulations.

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

- Market risk
- Credit risk
- Liquidity risk
- Operational risk

22.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices / commission rates.

- a) **Currency risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals. Transactions in other foreign currencies are not material.
- b) **Price risk** is the risk that the value of a financial instrument will fluctuate because of changes in market prices (other than as a result of foreign currency and commission rate movements), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Exposure

The Company is exposed to price risk with respect to its investments in equity shares and mutual fund units classified as FVTPL respectively. During the year, the Company has disposed-off its investments in equities shares.

Sensitivity

Due to 10% change in the NAV of the mutual fund units, as at 31 December 2020, with all other variables held constant, the income and equity for the year would be higher / lower by SAR 5.19 million (2019: SAR 6.57 million).

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22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.1 Market risk (continued)

- c) **Cash flow and fair value commission rate risk** is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company's financial positions and cash flows.

Exposure

The Company's commission rate risks arise mainly from its bank balances, receivable against margin lending and short-term murabaha financing. The Company on a regular basis monitors changes in the commission rates and acts accordingly. The Company's receivable from receivable against margin lending includes only fixed commission rate instruments.

The Company's fixed rate receivables (all murabaha contracts and fixed rate receivable against margin lending contracts) are carried at amortised cost and are therefore not subject to commission rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of changes in market commission rates.

Sensitivity

With a 10% change in the underlying SIBOR with all the variables held constant, the cash flows for the year will increase / decrease as follows:

Cash and bank balances - 10% change in SAIBOR SAR – 342,714

Commission rate risk	<u>Within 3 months</u>	<u>3-12 months</u>	<u>Over 1 year</u>	<u>Non commission bearing</u>	<u>Total</u>
31 December 2020					
Assets					
Cash and bank balances	325,360,813	-	-	10,000	325,370,813
Receivable against margin lending	62,058,794	53,217,875	-	-	115,276,669
Investments held at FVTPL	-	-	-	307,873,218	307,873,218
Other assets	-	-	-	80,407,657	80,407,657
Investments held at amortised cost	-	-	30,661,273	-	30,661,273
Total financial assets	387,419,607	53,217,875	30,661,273	388,290,875	859,589,630
Liabilities					
Commission rate risk	<u>Within 3 months</u>	<u>3-12 months</u>	<u>Over 1 year</u>	<u>Non commission bearing</u>	<u>Total</u>
Accrued and other liabilities	-	-	-	176,630,251	176,630,251
Total financial liabilities	-	-	-	176,630,251	176,630,251
Net	387,419,607	53,217,875	30,661,273	211,660,624	682,959,379

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22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.1 Market risk (continued)

Commission rate risk	Within 3 months	3-12 months	Over 1 year	Non commission bearing	Total
December 31, 2019					
Assets					
Cash and bank balances	284,371,611	-	-	15,000	284,386,611
Margin financing	76,698,796	71,655,204	-	-	148,354,000
Investments held at FVTPL	-	-	-	273,403,928	273,403,928
Other assets	-	-	-	79,145,637	79,145,637
Investments held at amortised cost	-	-	3,285,246	-	3,285,246
Total financial assets	361,070,407	71,655,204	3,285,246	352,564,565	788,575,422
Short-term murabaha financing	-	20,029,633	-	-	20,029,633
Accrued and other liabilities	-	-	-	164,436,453	164,436,453
Total financial liabilities	-	20,029,633	-	164,436,453	184,466,086
Net	361,070,407	51,625,571	3,285,246	188,128,112	604,109,336

22.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss.

Exposure

The deposits are with Bank AlBilad, which has investment grade credit ratings and is a related party. The accrued income mainly relates to amounts due from asset management services and is settled within a short period. The receivables relate to receivable against margin lending trading portfolios and have adequate coverage ratios. The portfolios are closely monitored, and any margin calls or liquidations are performed at predefined thresholds as and when needed to ensure that the Company's exposure is sufficiently collateralized. The maximum credit exposure equals the carrying amount of the deposits and other assets.

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22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

Credit quality analysis

The following table sets out the credit analysis for financial assets:

31 December 2020	Investment grade	Unrated	Total
Cash and bank balances	325,370,813	-	325,370,813
Receivable against margin lending	-	115,276,669	115,276,669
Investments held at FVTPL	-	307,873,218	307,873,218
Investment held at amortised cost	30,661,273	-	30,661,273
Other assets	-	80,407,657	80,407,657
Total	356,032,086	503,557,544	859,589,630

31 December 2019	Investment grade	Unrated	Total
Cash and bank balances	284,386,611	--	284,386,611
Receivable against margin lending	--	148,354,000	148,354,000
Investments held at FVTPL	--	273,403,928	273,403,928
Investment held at amortised cost	3,285,246	--	3,285,246
Other assets	--	79,145,637	79,145,637
Total	287,671,857	500,903,565	788,575,422

At December 31, the credit risk exposure for receivable against receivable against margin lending by geographic region is as follows:

	31 December 2020	31 December 2019
Saudi Arabia	115,276,669	148,354,000

At December 31, the credit risk exposure for receivables against receivable against margin lending by type of customer is as follows:

	31 December 2020	31 December 2019
Corporate customers	-	24,766,586
Retail customers	115,276,669	123,587,414
	115,276,669	148,354,000

At 31 December 2020, the carrying amount of exposure to Company's most significant customer was SAR 31.2 million (31 December 2019: SAR 23.5 million).

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22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.3 Liquidity risk

Liquidity risk is the risk that an enterprise will 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. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet any future commitments.

The Company's liquidity management process is as follows:

- a. Day-to-day funding, managed by finance department to ensure that requirements can be met and this includes replenishment of funds as they mature or are invested
- b. Monitoring balance sheet liquidity ratios against internal and regulatory requirements
- c. Managing the concentration and profile of debt maturities
- d. Liquidity management and asset and liability mismatching.

The following analyses the Company's financial liabilities into relevant maturity groupings based on the remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Total
31 December 2020		
Accrued and other liabilities	176,630,251	176,630,251
	176,630,251	176,630,251
31 December 2019		
Accrued and other liabilities	164,436,453	164,436,453
Short-term murabaha financing	20,029,633	20,029,633
	184,466,086	184,466,086

22.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Company's activities either internally or externally at the Company's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

Operational risk is a distinct risk category which the Company manages within acceptable levels through sound operational risk management practices that are part of the day-to-day responsibilities of management at all levels. The objective in managing operational risk is to ensure control of the Company's resources by protecting its assets and minimising the potential for financial loss.

The Company's risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with operations. The management of operational risk has a key objective of minimising the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss.

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23 CAPITAL RISK MANAGEMENT

The objective of managing capital is to safeguard the Company's ability to continue as a going concern, so that it could continue to provide adequate returns to its shareholder by pricing services commensurate with the level of risk. It is the policy of the Company to maintain adequate capital base so as to maintain investor, creditor and market confidence and to support future development of the business. The Company's capital base sufficiently covers all material risks meeting the minimum capital requirements and the Company intends to maintain a healthy capital ratio to cater future business growth. For capital adequacy details, refer to note 23.1.

23.1 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:

	31 December 2020 SAR'000s	31 December 2019 SAR'000s
Capital Base:		
Tier 1 Capital	669,739	593,467
Tier 2 Capital	--	--
Total Capital Base	669,739	593,467
Minimum Capital Requirement:		
Market Risk	13,490	7,248
Credit Risk	239,400	243,515
Operational Risk	26,350	24,193
Total Minimum Capital Required	279,240	274,956
Capital Adequacy Ratio:		
Total capital ratio (time)	2.40	2.16
Surplus in capital	390,499	318,511

Capital base of the Company comprise of:

- Tier-1 capital consists of paid-up share capital, retained earnings, reserves and adjustments towards intangible asset and remeasurement reserve for employee's EOSB as per Article 4 of the Rules.
- There is no Tier-2 capital for the year ended 31 December 2020.

The Minimum Capital Requirements for market, credit and 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.

Certain information as required by Pillar III of the Prudential Rules will be made available to the public on the Company's website <http://www.AlBilad-capital.com>, however, this information is not subject to review or audit by the external auditors of the Company.

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24 FAIR VALUE ESTIMATION

As at 31 December 2020 and 2019, the fair values of the Company's financial instruments are estimated to approximate their carrying values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS that are endorsed in the Kingdom of Saudi Arabia, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or liability, the Company uses observable market 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 market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted market 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).

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement. The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The table below presents the financial assets and financial liabilities as at 31 December 2020 and 2019 based on the fair value hierarchy:

31 December 2020	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets not measured at fair value					
Receivable against margin lending	115,276,669	-	-	115,276,669	115,276,669
Other assets	80,407,657	-	-	80,407,657	80,407,657
Investments held at amortised cost	30,661,273	-	-	30,661,273	30,661,273
Financial assets measured at fair value					
Investments held at FVTPL	307,873,218	-	84,309,553	223,563,665	307,873,218
Financial assets	534,218,817	-	84,309,553	449,909,264	534,218,817
Financial liabilities not measured at fair value					
Accrued and other liabilities	176,630,251	-	-	176,630,251	176,630,251
Financial liabilities	176,630,251	-	-	176,630,251	176,630,251

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24 FAIR VALUE ESTIMATION (CONTINUED)

31 December 2019	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial assets not measured at fair value					
Receivable against margin lending	148,354,000	--	--	148,354,000	148,354,000
Other assets	79,145,637	--	--	79,145,637	79,145,637
Investments held at amortised cost	3,285,246	--	--	3,285,246	3,285,246
Financial assets measured at fair value					
Investments held at FVTPL	273,403,928	12,565,427	31,166,702	229,671,799	273,403,928
Financial assets	504,188,811	12,565,427	31,166,702	460,456,682	504,188,811
Financial liabilities					
Financial liabilities not measured at fair value					
Short-term murabaha financing	20,029,633	--	--	20,029,633	20,029,633
Accrued and other current liabilities	164,436,453	--	--	164,436,453	164,436,453
Financial liabilities	184,466,086	--	--	184,466,086	184,466,086

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. During the years ended 31 December 2020 and 2019, there were no transfers into or out of Level 3 fair value measurements.

The fair values of financial position financial instruments not measured at fair value are not significantly different from the carrying values included in the financial statements. The fair values of cash and bank balances, receivable against margin lending, other assets and investments held 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. An active market for these instruments is not available and the Company intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities. Mutual fund investments at FVTPL are classified under level 2 and level 3 as the valuation of this investment is derived from the net asset value of the fund.

25 ASSETS UNDER MANAGEMENT AND CUSTODY

Assets held in trust in a fiduciary capacity are not treated as assets of the Company and accordingly are not included in the Company's financial statements. The assets under management ("AUMs") at the end of the year including private, public mutual funds and discretionary portfolios amounted to SAR 9.16 Billion (2019: SAR 8.96 Billion). In addition to this, an amount of SAR 2.07 Billion (2019: SAR 1.37 billion) relates to client money arising from brokerage business held in a designated account in Bank AlBilad. The assets under custody services at the end of the year amounted to SAR 135 billion (2019: SAR 114 billion).

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26 SUBSEQUENT EVENTS

There were no subsequent events after the statement of financial position date which require adjustments to/or disclosure in the financial statements.

27 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors of the Company on 10 Sha'ban 1442 H (corresponding to 23 March 2021).