

**AL RAJHI CAPITAL COMPANY**  
(A Saudi Closed Joint Stock Company)  
**FINANCIAL STATEMENTS**  
For the year ended 31 December 2021  
together with the  
**Independent Auditor's Report**



## KPMG Professional Services

Riyadh Front, Airport Road  
P. O. Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia  
Commercial Registration No. 1010425494

Headquarters in Riyadh

## كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار  
صندوق بريد ٩٢٨٧٦  
الرياض ١١٦٦٣  
المملكة العربية السعودية  
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

# Independent Auditor's Report

To the Shareholders of Al Rajhi Capital Company

## Opinion

We have audited the financial statements of Al Rajhi Capital Company ("the Company"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other 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 2021, and its financial performance and its cash flows for the year then ended in accordance with 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 Chartered and Professional Accountants (SOCPA) (collectively referred to as "IFRS as endorsed in the Kingdom of Saudi Arabia").

## Basis for Opinion

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

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance, i.e. 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

KPMG Professional Services, a professional closed joint stock company registered in the Kingdom of Saudi Arabia with the paid-up capital of SAR (25,000,000). Previously known as "KPMG Al Fozan & Partners Certified Public Accountants". A non-partner member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

كي بي إم جي للاستشارات المهنية شركة مهنية مساهمة مقفلة، مسجلة في المملكة العربية السعودية، رأس مالها (٢٥,٠٠٠,٠٠٠) ريال سعودي، مخفوع بالكامل، المسماة سابقاً "شركة كي بي إم جي للفوزان وشركاه محاسبين ومراجعين قانونيين". وهي عضو غير شريك في الشبكة العالمية لشركات كي بي إم جي المستقلة والناهية لـ كي بي إم جي العالمية المحدودة، شركة انجليزية محدودة بضمان. جميع الحقوق محفوظة.

# Independent Auditor's Report

To the Shareholders of Al Rajhi Capital Company (continued)

## Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with International Standards on Auditing 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 Al Rajhi Capital Company ("the Company").

KPMG Professional Services

  
**Khalil Ibrahim Al Sedais**  
License No: 371



Al Riyadh, 24 March 2022  
Corresponding to: 21 Sha'aban 1443H

**AL RAJHI CAPITAL COMPANY**  
(A Saudi Closed Joint Stock Company)  
**STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2021  
(Saudi Arabian Riyals)

	<i>Notes</i>	<b>31 December 2021</b>	31 December 2020
<b><u>ASSETS</u></b>			
Property and equipment	4	13,472,547	319,252
Intangible assets	5	19,865,319	17,464,390
Investment properties	6	1,325,470,319	1,346,636,256
Investments	7	445,729,704	616,656,388
<b>Non-current assets</b>		<b>1,804,537,889</b>	1,981,076,286
Investments	7	410,979,063	634,060,464
Murabaha receivables	8	2,589,588,752	1,227,291,565
Accrued income	9	55,355,705	37,208,794
Advances, prepayments and other receivables	10	37,982,600	27,426,236
Cash and cash equivalents	11	12,712,679	14,337,847
<b>Current assets</b>		<b>3,106,618,799</b>	1,940,324,906
<b>Total assets</b>		<b>4,911,156,688</b>	3,921,401,192
<b><u>EQUITY AND LIABILITIES</u></b>			
<b>Equity</b>			
Share capital	17	500,000,000	500,000,000
Statutory reserve	3.9	250,000,000	250,000,000
Fair value reserve		33,534,351	6,888,936
Retained earnings		3,673,095,260	2,953,456,067
<b>Total equity</b>		<b>4,456,629,611</b>	3,710,345,003
<b>Liabilities</b>			
Employee benefits	12	40,148,093	41,382,100
<b>Non-current liabilities</b>		<b>40,148,093</b>	41,382,100
Loan from Parent Company	13	220,783,667	-
Other payables and accruals	14	102,377,097	102,745,089
Due to a related party - Zakat payable	15	82,585,296	66,761,565
Provisions	16	8,632,924	167,435
<b>Current liabilities</b>		<b>414,378,984</b>	169,674,089
<b>Total liabilities</b>		<b>454,527,077</b>	211,056,189
<b>Total equity and liabilities</b>		<b>4,911,156,688</b>	3,921,401,192

The accompanying notes from 1 to 28 form an integral part of these financial statements.

**AL RAJHI CAPITAL COMPANY**  
(A Saudi Closed Joint Stock Company)  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
For the year ended 31 December 2021  
(Saudi Arabian Riyals)

	<i>Notes</i>	<b>For the year ended 31 December</b>	
		<b><u>2021</u></b>	<b><u>2020</u></b>
<b><u>Operating income</u></b>			
Brokerage income, net		<b>632,690,773</b>	541,159,712
Asset management income		<b>144,264,180</b>	117,471,801
Rental income on investment properties	6	<b>101,603,742</b>	100,710,780
Investment banking income		<b>18,804,793</b>	13,561,331
Gain on investments, net		<b>4,713,522</b>	4,516,157
Special commission income on Murabaha receivables		<b>75,143,265</b>	47,850,984
Dividend income		<b>20,311,207</b>	22,983,451
Other operating income		<b>2,031,603</b>	1,449,336
<b>Total operating income</b>		<b><u>999,563,085</u></b>	<b><u>849,703,552</u></b>
<b><u>Operating expenses</u></b>			
Salaries and employee related benefits		<b>(124,392,516)</b>	(122,023,406)
Depreciation	4,6	<b>(21,030,867)</b>	(17,713,245)
Amortisation	5	<b>(7,573,326)</b>	(7,169,827)
Rental expense		<b>(6,540,228)</b>	(6,591,527)
Other general and administrative expenses	18	<b>(29,972,258)</b>	(21,833,757)
Promotion and marketing expenses		<b>(496,434)</b>	(85,420)
Impairment losses on murabaha and rent receivables	8.1,10.1	<b>(2,809,546)</b>	(9,701,310)
Impairment losses on investment properties	6	<b>(5,000,000)</b>	(20,386,179)
<b>Total operating expenses</b>		<b><u>(197,815,175)</u></b>	<b><u>(205,504,671)</u></b>
<b>Operating profit</b>		<b>801,747,910</b>	644,198,881
Finance cost	21	<b>(783,667)</b>	-
<b>Operating profit before zakat</b>		<b>800,964,243</b>	644,198,881
Zakat charge	15.1	<b>(82,585,296)</b>	(66,761,565)
<b>Profit for the year</b>		<b><u>718,378,947</u></b>	<b><u>577,437,316</u></b>
<b>Other comprehensive income for the year:</b>			
<i>Items that will not be reclassified to profit and loss in subsequent periods:</i>			
Investments at FVOCI – net change in fair value		<b>26,645,415</b>	10,938,797
Remeasurement of defined benefit liability	12	<b>1,260,246</b>	(711,000)
<b>Total other comprehensive income for the year</b>		<b><u>27,905,661</u></b>	<b><u>10,227,797</u></b>
<b>Total comprehensive income for the year</b>		<b><u>746,284,608</u></b>	<b><u>587,665,113</u></b>

The accompanying notes from 1 to 28 form an integral part of these financial statements.

**AL RAJHI CAPITAL COMPANY**  
(A Saudi Closed Joint Stock Company)  
**STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2021  
(Saudi Arabian Riyals)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Fair value reserve</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance as at 1 January 2021</b>	<b>500,000,000</b>	<b>250,000,000</b>	<b>6,888,936</b>	<b>2,953,456,067</b>	<b>3,710,345,003</b>
<i><b>Total comprehensive income</b></i>					
Profit for the year	-	-	-	<b>718,378,947</b>	<b>718,378,947</b>
Other comprehensive income for the year	-	-	<b>26,645,415</b>	<b>1,260,246</b>	<b>27,905,661</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>26,645,415</b>	<b>719,639,193</b>	<b>746,284,608</b>
<b>Balance as at 31 December 2021</b>	<b><u>500,000,000</u></b>	<b><u>250,000,000</u></b>	<b><u>33,534,351</u></b>	<b><u>3,673,095,260</u></b>	<b><u>4,456,629,611</u></b>

	<u>Share Capital</u>	<u>Statutory reserve</u>	<u>Fair value reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at 1 January 2020	500,000,000	250,000,000	(4,049,861)	2,376,729,751	3,122,679,890
<i><b>Total comprehensive income</b></i>					
Profit for the year	-	-	-	<b>577,437,316</b>	<b>577,437,316</b>
Other comprehensive income for the year	-	-	<b>10,938,797</b>	<b>(711,000)</b>	<b>10,227,797</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>10,938,797</b>	<b>576,726,316</b>	<b>587,665,113</b>
<b>Balance as at 31 December 2020</b>	<b><u>500,000,000</u></b>	<b><u>250,000,000</u></b>	<b><u>6,888,936</u></b>	<b><u>2,953,456,067</u></b>	<b><u>3,710,345,003</u></b>

The accompanying notes from 1 to 28 form an integral part of these financial statements.

**AL RAJHI CAPITAL COMPANY**  
(A Saudi Closed Joint Stock Company)  
**STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2021  
(Saudi Arabian Riyals)

	<i>Notes</i>	<b>For the year ended 31 December</b>	
		<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities</b>			
Operating profit before zakat		<b>800,964,243</b>	644,198,881
Adjustments for:			
Depreciation	4,6	<b>21,030,867</b>	17,713,245
Amortisation	5	<b>7,573,326</b>	7,169,827
Finance cost		<b>783,667</b>	-
Special commission income on Murabaha receivables		<b>(75,143,265)</b>	(47,850,984)
Provision for impairment on investment property	6	<b>5,000,000</b>	20,386,179
Gain on investments, net		<b>(4,713,522)</b>	(4,516,157)
Provision for credit impairment losses	8.1,10.1	<b>2,809,546</b>	9,701,310
Provision for employee benefit	12	<b>5,601,976</b>	6,114,790
<i>Changes in:</i>			
Murabaha receivables		<b>(1,287,329,294)</b>	(367,792,378)
Accrued income		<b>(18,146,911)</b>	(10,326,538)
Employee loan		-	1,758,000
Advances, prepayments and other receivables		<b>(13,190,538)</b>	25,483,084
Other payables and accruals		<b>(367,997)</b>	23,785,674
Provisions		<b>8,465,489</b>	(7,162,711)
<b>Cash (used in) / generated from operating activities</b>		<b>(546,662,413)</b>	318,662,222
Employee benefits paid		<b>(5,575,737)</b>	(5,826,000)
Zakat paid	15.1	<b>(66,761,565)</b>	(20,941,786)
<b>Net cash (used in) / generated from operating activities</b>		<b>(618,999,715)</b>	291,894,436
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	4	<b>(16,566,661)</b>	(307,909)
Acquisition of intangible assets	5	<b>(9,974,255)</b>	(4,929,545)
Acquisition of investment property	6	<b>(1,451,559)</b>	(764,215)
Acquisition of investments		<b>(682,594,401)</b>	(745,641,703)
Proceeds from sale of investments		<b>1,107,961,423</b>	441,000,000
<b>Net cash (used in) / generated from investing activities</b>		<b>397,374,547</b>	(310,643,372)
<b>Cash flows from financing activities</b>			
Borrowing from Parent company	13	<b>220,000,000</b>	-
<b>Cash generated from financing activities</b>		<b>220,000,000</b>	-
<b>Decrease in cash and cash equivalents</b>		<b>(1,625,168)</b>	(18,748,936)
Cash and cash equivalents at the beginning of the year		<b>14,337,847</b>	33,086,783
<b>Cash and cash equivalents at the end of the year</b>	11	<b>12,712,679</b>	14,337,847

The accompanying notes from 1 to 28 form an integral part of these financial statements.

**AL RAJHI CAPITAL COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2021**  
(Saudi Arabian Riyals)

**1 GENERAL INFORMATION**

Al Rajhi Capital Company (the “Company” or “ARC”) is a Saudi closed joint stock company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010241681 dated 1 Dhul Hijjah 1428H (corresponding to 11 December 2007).

The objectives of the Company are to provide a range of diverse, innovative Sharia-compliant financial products and services.

The registered address of the Company is as follows:

Al Rajhi Capital, Head Office  
8467 King Fahad Road – Al Muruj Dist.  
Unit No 1  
Riyadh 12263 - 2743  
Kingdom of Saudi Arabia

**2 BASIS OF PREPARATION**

**a) Statement of compliance**

The accompanying financial statements presenting the operations conducted by the Company for the year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards (“IFRS”), that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by Saudi Organisation for Chartered and Professional Accountants (“SOCPA”).

**b) Basis of measurement**

These financial statements have been prepared on a going concern basis under historical cost convention except for investments which are carried at fair value, and employee benefits which are measured using actuarial techniques at present value. These financial statements are presented in Saudi Arabian Riyals (“SR”), which is the presentation and functional currency of the Company. All amounts have been rounded to the nearest SR, unless otherwise stated.

**c) Critical accounting estimates and judgments**

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.



**AL RAJHI CAPITAL COMPANY**  
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**2 BASIS OF PREPARATION (CONTINUED)**

**c) Critical accounting estimates and judgments (continued)**

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing some new variants of COVID-19. The Government 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 impact of new variant as in 2021, it was made mandatory for each citizen to be fully vaccinated. Further, third dose for COVID-19 vaccines has been introduced and the Government is taking measures to ensure that every citizen of the Kingdom benefits from it. The Company itself has taken several measures to ensure that the employees and customers are safe and are only allowing the employees and customers in the Company’s premises only when the Government regulated application related to COVID-19 (Tawalkalna) is updated.

In 2021, although the vaccines are approved and distributed to majority of the citizen in Kingdom, 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 2021 about future events that the Company believes 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 estimate impacted by these forecasts and associated uncertainties is predominantly related to expected credit losses (“ECL”). The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements.

- **Measurement of the expected credit loss allowance (“ECL”)**

The measurement of the expected credit loss allowance 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 counter-parties defaulting and the resulting losses). Explanation of the input, assumptions and estimation techniques used in measuring ECL on Murabaha receivables and rental receivables are further detailed in note 3.2.

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

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

Detailed information about the judgments and estimates by the Company in respect of the above is set out in note 3.2.

**AL RAJHI CAPITAL COMPANY**  
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**2 BASIS OF PREPARATION (CONTINUED)**

**c) Critical accounting estimates and judgments (continued)**

The loss allowance recognised in the period is impacted by a variety of factors as described below:

- (i) Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period and the consequent ("step up" or "step down") between 12-month and Lifetime ECL;
- (ii) Additional allowances for new financial instruments recognised during the period as well as releases for financial instruments de-recognised in the period;
- (iii) Impact on the measurement of ECL due to changes in Probability of Default ("PD"), Exposure At Default ("EAD") and Loss Given Default ("LGD") in the period arising from regular refreshing of inputs of models;
- (iv) Impacts on the measurement of ECL due to changes made to models and assumptions;
- (v) Unwinding of discount within ECL due to the passage of time as ECL is measured on a present value basis; and
- (vi) Write-offs of allowances related to assets that were written-off during the period.

**- Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by ARC.

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.

ARC uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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**2 BASIS OF PREPARATION (CONTINUED)**

**c) Critical accounting estimates and judgments (continued)**

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis using level 1 or level 2 indicators, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

The Company applies the fair value of a financial instrument on initial recognition as normally the transaction price i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in the statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

- Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a 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. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

- Employee benefits

*Defined benefit plans*

ARC operates a defined benefit plan under the Saudi Arabian Law applicable 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 plans is determined separately for each plan using the projected unit credit method as per IAS 19 *Employee benefits*.

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**2 BASIS OF PREPARATION (CONTINUED)**

**c) Critical accounting estimates and judgments (continued)**

The cost of providing benefits under ARC's defined benefit plan is determined using the projected unit credit method by a professionally qualified actuary and arrived at using actuarial assumptions based on market expectations at the date of the 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 and 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 the statement of other comprehensive income in the period in which these occur. Re-measurements are not reclassified to the statement of profit or loss in subsequent periods.

Past service costs are recognized in the statement of profit or loss on the earlier of:

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

Financing cost is calculated by applying the discount rate to the net defined benefit liability or asset.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation is re-measured using current actuarial assumptions and the resultant gain or loss is recognized in the statement of profit or loss during the period in which the settlement or curtailment occurs.

The defined benefit liability in the statement of financial position comprises the present value of the defined benefit obligation (using a discount rate).

**- Write-off of financial assets**

ARC writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the ARC's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering full. Management assesses various indicators of funds not being recoverable before these are written-off. Any conclusion reached on existence of those indicators and how these are financially impacting the Company is sensitive to the degree of judgments involved in interpreting those indicators.

**- Useful lives and residual values of property and equipment, intangible assets and investment properties**

Management determines the estimated useful lives and residual values of its property and equipment, intangible assets and investment properties. The estimate is determined after considering the expected usage of the asset or physical wear and tear. The Company periodically reviews estimated useful lives, residual values and depreciation / amortisation methods to ensure that the method and periods of depreciation / amortisation are consistent with the expected pattern of economic benefits from those assets.

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**2 BASIS OF PREPARATION (CONTINUED)**

**c) Critical accounting estimates and judgments (continued)**

- Going concern

These financial statements have been prepared on a going concern basis. The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as going concern.

**d) New standards or amendments issued but are not yet effective**

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) – the amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate.
- Annual improvement to IFRS Standards 2018-2020.

The following annual improvements to IFRS standards 2018-2020 are effective for annual reporting periods beginning on or after 1 January 2022:

- IFRS 9 Financial Instruments: This amendment clarifies that – for the purpose of performing the '10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- IFRS 16 Leases: The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive.

The above standards, interpretations and amendments are not likely to have an impact on the Company's financial statements.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company has consistently applied the following accounting policies to all periods presented in these financial statements, unless otherwise indicated.

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

**3.1 Cash and cash equivalents**

Cash and cash equivalents comprise of cash at banks only, which are available to the Company without any restriction.

**3.2 Financial instruments**

**a) Classification of financial assets**

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

**Financial Asset at amortised cost**

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

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

***Financial Asset at FVOCI***

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

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

***Financial Asset at FVTPL***

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

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

**3.2 Financial instruments (continued)**

**a) Classification of financial assets (continued)**

***Business model assessment (continued)***

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

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.

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

***Assessments whether contractual cash flows are solely payments of principal and profit***

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

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

**3.2 Financial instruments (continued)**

*Assessments whether contractual cash flows are solely payments of principal and profit (continued)*

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

**a) Classification of financial liabilities**

The Company classifies its financial liabilities, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium to issue the funds, and other cost that are integral part of the effective profit rate.

**b) Derecognition**

**Financial assets**

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in statement of profit or loss.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

**Financial liabilities**

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired.



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

**3.2 Financial instruments (continued)**

**c) Modifications of financial assets and financial liabilities**

**Financial assets**

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses.

The Company does not have any financial assets modified during the period and thus this does not apply to the Company.

**d) Expected credit losses (ECL)**

The Company recognizes loss allowances for ECL on its Murabaha receivables and Rental receivables.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

***Measurement of ECL***

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

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

**3.2 Financial instruments (continued)**

**e) Expected credit losses (ECL) (continued)**

**Restructured financial assets**

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

The Company does not have any financial assets restructured during the period, and thus this does not apply to the Company.

**Credit-impaired financial assets**

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a Murabaha receivable or Rental receivable by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A murabaha receivable or rental receivable that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

**Presentation of allowance for ECL in the statement of financial position**

Impairment allowances for ECL of Murabaha receivables and rental receivables presented in statement of financial position as a deduction of gross carrying amount of the assets.

**Write-off**

Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

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

**3.3 Impairment of 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, ARC estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit ("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.

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, ARC 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 profit or loss.

**3.4 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 asset as follows:

	<u><b>Years</b></u>
Furniture, fixtures and office equipment	3 - 5 years
Motor vehicles	3 years
Computers hardware	3 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 profit or loss when the asset is derecognized.

Normal repair and maintenance are charged to the statement of profit or loss as and when incurred.

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. Work in progress is not depreciated.

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

**3.5 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 3 to 7 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 profit or loss in the operating expenses.

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 profit or loss when the asset is derecognized.

**3.6 Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation, net of impairment losses (if any). Depreciation is charged to the statement of profit or loss, using straight-line method to allocate the costs of the related assets to their residual values over their estimated useful lives which ranges from 30-35 years. The Company follows cost model of IAS 40 for subsequent measurement of investment properties. For the purpose of computing impairment losses, at each reporting period an evaluation is conducted of investment properties at fair value, which reflects market conditions at the reporting date. Any impairment loss identified is recorded in the statement of profit or loss. Fair values are determined based on an annual evaluation performed by an accredited external, independent values, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of profit or loss in the period of derecognition.

**3.7 Other payables and accruals**

Other payables and accruals represents amounts to be paid for goods and services received, whether or not billed to the Company.

**3.8 Zakat and withholding tax**

The Company does not file a separate Zakat to the Zakat and Custom Authority (“ZATCA”) (previously known as General Authority of Zakat and Tax (GAZT)), and instead applies the group allocation approach, as Al Rajhi Banking and Investment Corporation (the “Parent”) submits a consolidated / single zakat return for the entire group based on its consolidated zakat base and settles zakat liability accordingly. The Company records the Zakat charge based on the allocation by the Parent in a systematic manner.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law, if any.

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

**3.9 Statutory reserve**

As required by the Company's By-laws and the Saudi Arabian Regulations for Companies, 10% of net income for the year is transferred to statutory reserve. The Company may resolve to discontinue such transfer when the reserve totals 30% of its share capital. This reserve is not available for distribution. Since the statutory reserve of the Company has already reached to 50% of its share capital, therefore, no transfer has been made to the statutory reserve during the year (year ended 31 December 2020: SR. Nil).

**3.10 Revenue – contracts with customers**

The Company recognises revenue under IFRS 15 using the following five steps model:

Step 1: Identify the contract with customer	A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
Step 2: Identify the performance obligations	A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
Step 3: Determine the transaction price	The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
Step 4: Allocate the transaction price	For a contract that has more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.
Step 5: Recognise revenue	The Company recognises revenue (or as) it satisfies a performance obligation by transferring a promised good or service to the customer under a contract.

**Identify the contracts with customers**

The Company carefully evaluates the terms and conditions of the contracts with its customers because revenue is recognised only when performance obligations in contracts with customers are satisfied. A change in the scope or price (or both) of a contract is considered as a contract modification and the Company determines whether this creates a new contract or whether it will be accounted for as part of the existing contract.

**Identify the performance obligations under the contract**

Once the Company has identified the contract with a customer, it evaluates the contractual terms and its customary business practices to identify all the promised services within the contract and determine which of those promised services (or bundles of promised services) will be treated as separate performance obligations.

The Company assess the services promised in a contract with a customer and identifies as a performance obligation either a:

- a) service that is distinct; or
- b) series of distinct services that are substantially the same and that have the same pattern of transfer to the customer (i.e. each distinct service is satisfied over the time and the same method is used to measure progress).

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

**3.10 Revenue – contracts with customers (continued)**

**Identify the performance obligations under the contract (continued)**

A service (or bundle of services) is distinct if the customer can benefit from the service on its own or together with other readily available resources (i.e., the service is capable of being distinct) and the service is separately identifiable from other promises in the contract (i.e., the service is distinct within the context of the contract).

The Company provides management services to its customers which are generally provided continuously over the contract period. Accordingly, the services in these contracts generally represent a single performance obligation. Fees charged for managing mutual funds are recognised as revenue in accordance with the management fee rate of each fund as the services are provided.

**Determine the transaction price**

The Company determines transaction price as the amount which it expects to be entitled. It includes an estimate of any variable consideration, the effect of a significant financing component (i.e., the time value of money), the fair value of any non-cash consideration and the effect of any consideration paid or payable to a customer (if any). Variable considerations are limited to the amount for which it is highly probable that a significant reversal will not occur when the uncertainties related to the variability are resolved.

The recognition of performance-based fees with the Company requires significant judgment as these are based on fund's performance, relative to a benchmark or the realised appreciation of fund's investments. Management determines transaction prices for its following revenue streams as mentioned below:

- Rendering of brokerage services, where the Company acts as a broker for its customers. Transaction price is the commission received by the Company on such transactions, net of rebates and discounts, if any.
- Performance fee is based on funds' performance in relation to set benchmarks, which are subject to market volatility. Accordingly, the consideration to which the Company is entitled becomes variable. Transaction price for performance fee is determined once benchmark is achieved and testing time for achievement of stated benchmark is end of relevant period.
- Transaction price in respect of subscription fee received by the Company is generally fixed as per the subscription form signed by the customers
- In respect of Management fee received by the Company, transaction price is determined to be based on fixed percentage of funds' daily NAV. Accordingly, there is no variability in the consideration to which the Company is entitled
- Other advisory fee, which are generally fixed in nature based on agreement with the Parent to which the Company provides advisory services
- Rental income is earned from investment properties and is recognised on a straight-line basis over the term of the lease.

**Allocate the transaction price**

Once the performance obligations have been identified and the transaction price has been determined, transaction price is allocated to the performance obligations, generally in proportion to their stand-alone selling prices (i.e., on a relative stand-alone selling price basis). When determining stand-alone selling prices, the Company is required to use observable information, if available. If stand-alone selling prices are not directly observable, the Company makes estimates based on information that is reasonably available.

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

**3.10 Revenue – contracts with customers (continued)**

**Satisfaction of performance obligations**

Revenue is recognised only when the Company satisfies a performance obligation by transferring control of a promised service to the customer. Control may be transferred over time or at a point in time. Where a performance obligation is satisfied overtime, the Company identifies the progress under the contract based on either of an input or output method which best measures the performance completed to date. The method selected is applied consistently to similar performance obligations and in similar circumstances.

The Company fulfils its performance obligations in its contracts with customers at a point in time, and hence it recognises revenue as and when it fulfils its obligations under contracts with customers.

Based on the above five steps the revenue recognition policy for each revenue stream is as follow:

*Brokerage income*

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

*Asset management fees*

Asset management fees are recognised based on a fixed percentage of net assets under management (“asset-based”), or a percentage of returns from net assets (“returns-based”) subject to applicable terms and conditions and service contracts with customers and funds. The Company attributes the revenue from management fees to the services provided during the 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 recognised.

*Special commission income on Murabaha receivable*

Special commission income for all special commission bearing financial instruments (Murabaha receivables) are recognized in the statement of profit or loss using the 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, ARC 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 ARC 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.

If a financial asset subsequently becomes credit-impaired and is, therefore, regarded as ‘Stage 3’, the Company calculates commission income by applying the effective commission rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating commission income on a gross basis.

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

**3.10 Revenue – contracts with customers (continued)**

*Special commission income on Murabaha receivable (continued)*

The calculation of the effective yield takes into account all contractual terms of the financial instruments (Murabaha receivables) and includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset.

*Dividend income*

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

*Net gain from financial assets at fair value through profit or loss*

This include all gains and losses from changes in fair values and disposal of investments.

*Rental income*

Rental income from operating lease of the property is recognized on a straight-line basis over the term of the lease.

**3.11 Finance cost**

Expenses from borrowings are recognized on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit rate agreed with the Parent.

**3.12 Earnings prohibited by Shari'a**

The Company is committed to avoid recognising any income generated from non-shariah compliant. Accordingly, all non-shariah compliant income is credited to a charity account where the ARC uses these funds for charitable purposes as defined by the Sharia Supervisory Board.

**3.13 Expenses**

Promotional and marketing expenses are those which specifically relate to promotion and marketing. All other expenses, other than employees costs, financial charges and expenses allocated by the Parent are classified as general and administrative expenses.

**3.14 Operating lease expense**

Operating lease payments are recognized as expenses in the statement of profit or loss on a straight-line basis over the lease term.

**3.15 Foreign currencies**

Transactions in foreign currencies are translated into the functional currencies of the Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in statement of profit or loss.



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

**3.16 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.

**3.17 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.

**3.18 Assets under management**

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

**3.19 Clients' cash accounts**

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

**4 PROPERTY AND EQUIPMENT**

	<b><u>Furniture, fixtures and office equipment</u></b>	<b><u>Motor vehicles</u></b>	<b><u>Computer hardware</u></b>	<b><u>Total</u></b>
<b>Cost:</b>				
Balance as at 1 January 2020	497,222	390,000	1,047,337	1,934,559
Additions during the year	57,814	-	250,095	307,909
<b>Balance as at 31 December 2020</b>	<b>555,036</b>	<b>390,000</b>	<b>1,297,432</b>	<b>2,242,468</b>
Balance as at 1 January 2021	555,036	390,000	1,297,432	2,242,468
Additions during the year	245,333	-	16,321,328	16,566,661
<b>Balance as at 31 December 2021</b>	<b>800,369</b>	<b>390,000</b>	<b>17,618,760</b>	<b>18,809,129</b>
<b>Accumulated depreciation:</b>				
Balance as at 1 January 2020	452,326	390,000	957,986	1,800,312
Charge for the year	26,912	-	95,992	122,904
<b>Balance as at 31 December 2020</b>	<b>479,238</b>	<b>390,000</b>	<b>1,053,978</b>	<b>1,923,216</b>
Balance as at 1 January 2021	479,238	390,000	1,053,978	1,923,216
Charge for the year	61,446	-	3,351,920	3,413,366
<b>Balance as at 31 December 2021</b>	<b>540,684</b>	<b>390,000</b>	<b>4,405,898</b>	<b>5,336,582</b>
<b>Carrying amount:</b>				
31 December 2020	75,798	-	243,454	319,252
<b>31 December 2021</b>	<b>259,685</b>	<b>-</b>	<b>13,212,862</b>	<b>13,472,547</b>

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**5 INTANGIBLE ASSETS**

	<b>For the year ended 31 December</b>	
	<b><u>2021</u></b>	<b><u>2020</u></b>
<b>Cost:</b>		
At the beginning of the year	<b>60,361,396</b>	55,431,851
Additions during the year	<b><u>9,974,255</u></b>	<u>4,929,545</u>
<b>At the end of the year</b>	<b><u>70,335,651</u></b>	<u>60,361,396</u>
<b>Accumulated amortization:</b>		
At the beginning of the year	<b>42,897,006</b>	35,727,179
Charge for the year	<b><u>7,573,326</u></b>	<u>7,169,827</u>
<b>At the end of the year</b>	<b><u>50,470,332</u></b>	<u>42,897,006</u>
<b>Carrying amount at the end of the year</b>	<b><u>19,865,319</u></b>	<u>17,464,390</u>

Intangible assets represent core and related systems softwares; work in progress in respect of development / improvements to systems softwares. As at 31 December 2021, intangible assets include work in progress amounting to SR 11,429,703 (31 December 2020: SR 2,992,760)

**6 INVESTMENT PROPERTIES**

This represents commercial and retail properties in the Kingdom of Saudi Arabia ("KSA") and the United Arab Emirates ("UAE") which were leased to third-party tenants under operating lease arrangements.

	<b><u>Land</u></b>	<b><u>Buildings</u></b>	<b><u>Total</u></b>
<b>Cost:</b>			
Balance as at 1 January 2020	894,423,934	559,501,683	1,453,925,617
Additions during the year	-	<u>764,215</u>	<u>764,215</u>
Balance as at 31 December 2020	<u>894,423,934</u>	<u>560,265,898</u>	<u>1,454,689,832</u>
Balance as at 1 January 2021	<b>894,423,934</b>	<b>560,265,898</b>	<b>1,454,689,832</b>
Additions during the year	-	<u>1,451,564</u>	<u>1,451,564</u>
<b>Balance as at 31 December 2021</b>	<b><u>894,423,934</u></b>	<b><u>561,717,462</u></b>	<b><u>1,456,141,396</u></b>
<b>Accumulated depreciation and Impairment:</b>			
Balance as at 1 January 2020	-	70,077,056	70,077,056
Depreciation charge for the year	-	17,590,341	17,590,341
Impairment charge for the year	-	<u>20,386,179</u>	<u>20,386,179</u>
Balance as at 31 December 2020	-	<u>108,053,576</u>	<u>108,053,576</u>
Balance as at 1 January 2021	-	<b>108,053,576</b>	<b>108,053,576</b>
Depreciation charge for the year	-	<u>17,617,501</u>	<u>17,617,501</u>
Impairment charge for the year	-	<u>6,540,633</u>	<u>6,540,633</u>
Impairment reversal during the year	-	<u>(1,540,633)</u>	<u>(1,540,633)</u>
<b>Balance as at 31 December 2021</b>	-	<b><u>130,671,077</u></b>	<b><u>130,671,077</u></b>
<b>Carrying amount:</b>			
31 December 2020	<u>894,423,934</u>	<u>452,212,322</u>	<u>1,346,636,256</u>
<b>31 December 2021</b>	<b><u>894,423,934</u></b>	<b><u>431,046,385</u></b>	<b><u>1,325,470,319</u></b>

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**6 INVESTMENT PROPERTIES (CONTINUED)**

Investment properties comprise of the following:

		31 December 2021				
<u>Category</u>	<u>Location</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Accumulated impairment</u>	<u>Carrying amounts</u>	<u>Fair value</u>
Distribution Centre	Riyadh, KSA	393,764,680	(36,321,672)	-	357,443,008	491,260,000
Mall	Jeddah, KSA	363,073,748	(14,651,177)	(18,175,173)	330,247,398	333,730,000
Warehouse	Jebel Ali, UAE	227,224,834	(39,493,840)	-	187,730,994	239,527,000
Commercial Headquarter	Riyadh, KSA	169,281,983	(3,792,210)	-	165,489,773	167,270,000
Mall	Jeddah, KSA	140,417,807	(5,073,999)	(6,303,808)	129,040,000	129,040,000
Warehouse	Riyadh, KSA	59,444,151	(4,386,953)	(907,198)	54,150,000	54,150,000
Mall	Riyadh, KSA	102,934,193	(1,565,047)	-	101,369,146	111,430,000
As at 31 December 2021		<u>1,456,141,396</u>	<u>(105,284,898)</u>	<u>(25,386,179)</u>	<u>1,325,470,319</u>	<u>1,527,522,024</u>

  

		31 December 2020				
<u>Category</u>	<u>Location</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Accumulated impairment</u>	<u>Carrying amounts</u>	<u>Fair value</u>
Distribution Centre	Riyadh, KSA	393,764,675	(30,431,667)	-	363,333,008	491,260,000
Mall	Jeddah, KSA	362,904,408	(12,228,603)	(19,715,805)	330,960,000	330,960,000
Warehouse	Jebel Ali, UAE	227,224,834	(33,001,702)	-	194,223,132	234,600,000
Commercial Headquarter	Riyadh, KSA	169,281,983	(3,162,349)	-	166,119,634	167,280,000
Mall	Jeddah, KSA	140,265,414	(4,250,538)	-	136,014,876	138,460,000
Warehouse	Riyadh, KSA	58,474,424	(3,654,050)	(670,374)	54,150,000	54,150,000
Mall	Riyadh, KSA	102,774,094	(938,488)	-	101,835,606	111,430,000
As at 31 December 2021		<u>1,454,689,832</u>	<u>(87,667,397)</u>	<u>(20,386,179)</u>	<u>1,346,636,256</u>	<u>1,528,140,000</u>

Investment properties in the KSA are legally owned by Al Rajhi Development Company, a wholly owned subsidiary of the Parent. Further, investment property in the UAE is legally owned by Privileged Warehouses Company 3, a wholly owned subsidiary of the Company, for the beneficial interest of the Company.

Fair value of investment properties is determined annually by independent qualified property valuers.

- (i) Amounts recognised in the statement of profit or loss in respect of investment properties are as follows:

	For the year ended 31 December	
	<u>2021</u>	<u>2020</u>
Rental income	101,603,742	100,710,780
Cost of income	(22,024,777)	(22,215,676)
	<u>79,578,965</u>	<u>78,495,104</u>

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**6 INVESTMENT PROPERTIES (CONTINUED)**

- (ii) The future minimum lease payments under non-cancellable leases are receivable as follows:

	<b>31 December 2021</b>	31 December 2020
Within one year	<b>104,117,107</b>	98,196,086
Later than one year but not later than 5 years	<b>298,962,770</b>	388,327,267
Later than 5 years	<b>392,563,734</b>	227,581,187
	<b><u>795,643,611</u></b>	<u>714,104,540</u>

**7 INVESTMENTS**

Investment portfolio is summarised as follows:

	<b>31 December 2021</b>	31 December 2020
<b>Non-current</b>		
Corporate debt securities - at FVTPL	<b>43,623,516</b>	43,616,356
Investments in mutual funds - at FVTPL	<b>37,127,431</b>	369,370,519
- at FVOCI	<b>167,299,290</b>	148,608,344
Equity securities - at FVOCI	<b>87,750,467</b>	33,522,389
Corporate debt securities - at FVOCI	<b>109,929,000</b>	21,538,780
	<b><u>445,729,704</u></b>	<u>616,656,388</u>
<b>Current</b>		
Investment in a mutual fund- at FVTPL	<b>410,979,063</b>	634,060,464
	<b><u>856,708,767</u></b>	<u>1,250,716,852</u>

- 7.1** The table below summarises the investments in mutual funds:

	<b>31 December 2021</b>	31 December 2020
<b>Quoted</b>		
Al Rajhi Commodity SAR Fund	<b>47,591,301</b>	634,060,464
Al Rajhi REIT Fund	<b>167,299,290</b>	148,608,344
Al Rajhi Sukuk Fund	<b>5,773,381</b>	5,641,039
Al Rajhi MENA Dividend Growth Fund	<b>6,103,900</b>	4,911,350
Al Rajhi Freestyle Saudi Equity Fund	<b>5,250,150</b>	-
	<b><u>232,018,022</u></b>	<u>793,221,197</u>
<b>Unquoted</b>		
Alinma Makkah Real Estate Fund	<b>338,301,347</b>	338,818,130
Al Rajhi Advanced Murabaha Fund	<b>25,086,415</b>	-
NCB Tier One Sukuk Fund III	<b>20,000,000</b>	20,000,000
	<b><u>383,387,762</u></b>	<u>358,818,130</u>
	<b><u>615,405,784</u></b>	<u>1,152,039,327</u>

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**8 MURABAHA RECEIVABLES**

Murabaha receivables are as follows:

	<b>31 December 2021</b>	31 December 2020
Gross Murabaha receivables	<b>2,639,228,484</b>	1,255,470,017
Less: Unearned profit	<b>(89,168,161)</b>	(45,662,884)
Principal outstanding	<b>2,550,060,323</b>	1,209,807,133
Accrued profit on principal outstanding	<b>39,877,072</b>	17,657,703
Less: Allowance for credit impairment losses on Murabaha receivables (note 8.1)	<b>(348,643)</b>	(173,271)
	<b><u>2,589,588,752</u></b>	<u>1,227,291,565</u>

As at 31 December 2021, Murabaha receivables have original maturity tenure ranging from 3 to 12 months (31 December 2020: 3 to 12 months). Further, these Murabaha receivables carry profit rates ranging from 2.00% to 8.00% per annum (31 December 2020: 2.80% to 8.00% per annum).

As at 31 December 2021 and 2020, Murabaha receivables were neither past due nor impaired.

**8.1** The movement in allowance for credit impairment losses on Murabaha receivables is as follows:

	<b>For the year ended 31 December 2021</b>	2020
At the beginning of the year	<b>173,271</b>	72,777
Charge for the year	<b>175,372</b>	100,494
At the end of the year	<b><u>348,643</u></b>	<u>173,271</u>

**9 ACCRUED INCOME**

	<b>31 December 2021</b>	31 December 2020
Management fees	<b>41,386,565</b>	32,804,742
Others	<b>13,969,140</b>	4,404,052
	<b><u>55,355,705</u></b>	<u>37,208,794</u>

**10 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES**

	<b>31 December 2021</b>	31 December 2020
Gross rental receivables	<b>39,487,587</b>	34,250,482
Less: Allowance for credit impairment losses (note 10.1)	<b>(22,807,188)</b>	(20,173,014)
Net rental receivables	<b>16,680,399</b>	14,077,468
Due from the Parent (note 21.2)	<b>2,011,004</b>	1,062,476
Prepayments	<b>9,307,621</b>	7,350,440
Advances to employees	<b>216,222</b>	183,566
Other receivables	<b>9,767,354</b>	4,752,286
	<b><u>37,982,600</u></b>	<u>27,426,236</u>

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**10 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)**

**10.1** The movement in allowance for credit impairment losses in relation to rental receivables is as follows:

	<b>For the year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
At the beginning of the year	<b>20,173,014</b>	10,572,198
Charge for the year	<b>3,536,547</b>	10,760,313
Reversal for the year	<b>(902,373)</b>	(1,159,497)
At the end of the year	<b>22,807,188</b>	20,173,014

**10.2** The ageing of rental receivables is as follows:

	<b>31 December 2021</b>	<b>31 December 2020</b>
Less than 30 days	<b>9,373,966</b>	6,590,626
30 – 180 days	<b>5,859,574</b>	4,304,522
More than 180 days	<b>24,254,047</b>	23,355,334
	<b>39,487,587</b>	34,250,482

**11 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash at bank in current accounts.

**12 EMPLOYEE BENEFITS**

**12.1** The movement in employee benefits is as follows:

	<b>For the year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
Balance as at 1 January	<b>41,382,100</b>	40,382,310
<i>Included in profit or loss</i>		
- current service cost	<b>4,868,768</b>	4,456,790
- financing cost	<b>733,208</b>	1,658,000
	<b>5,601,976</b>	6,114,790
<i>Included in OCI</i>		
Remeasurement: Actuarial loss arising from:		
- financial assumptions	<b>(929,203)</b>	1,611,000
- experience adjustments	<b>(331,043)</b>	(900,000)
	<b>(1,260,246)</b>	711,000
Benefits paid	<b>(5,575,737)</b>	(5,826,000)
Balance as at 31 December	<b>40,148,093</b>	41,382,100

**12.2** Principal actuarial assumptions

	<b>31 December 2021</b>	<b>31 December 2020</b>
Discount rate (%)	<b>2.70</b>	2.45
Future salary increases (%)	<b>2.40</b>	2.40

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**12 EMPLOYEE BENEFITS (CONTINUED)**

**12.2 Principal actuarial assumptions (continued)**

	<b><u>31 December</u></b> <b><u>2021</u></b>	<b><u>31 December</u></b> <b><u>2020</u></b>
Turnover (%):		
- Age 18-25	<b>31.25</b>	31.25
- Age 26-30	<b>25.00</b>	25.00
- Age 31-50	<b>12.50</b>	12.50
- Age 51-59	<b>6.25</b>	6.25

*Discount rate*

This rate was used to calculate the actuarial present value of the projected benefits. As per International Accounting Standard 19 "Employee Benefits", the rate used to discount employee benefits is determined by reference to the market yields on high quality corporate bonds at the end of the reporting period. In case of the Company, the discount rate was derived with reference to US dollar denominated Kingdom of Saudi Arabia government traded bonds with maturities consistent with the estimated term of the employee benefits. The average duration of the employment benefit obligation was 10.3 years (31 December 2020: 10.2 years).

*Salary increases*

The salary escalation of 2.4% (31 December 2020: 2.4%) has been assumed as the long-term salary escalation rate and is broadly consistent with the benchmark salary increment rate of the region.

*Turnover*

The turnover assumption has been based on the prior year assumptions for attrition rates, which was considered to be in-line with the actual attrition rates.

**12.3** Reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the employee benefits as follows:

	<b><u>31 December</u></b> <b><u>2021</u></b>	<b><u>31 December</u></b> <b><u>2020</u></b>
<b>Discount rate</b>		
1 % increase	<b>(3,392,520)</b>	(3,498,000)
1% decrease	<b>3,936,604</b>	4,066,000
<b>Future salary increases</b>		
1% increase	<b>3,907,890</b>	3,532,000
1% decrease	<b>(3,432,893)</b>	(4,026,000)
<b>Turnover</b>		
20% increase	<b>(397,046)</b>	(513,000)
20% decrease	<b>399,222</b>	537,000

**12.4** Risks associated with the defined benefit plans

*Longevity risks*

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

*Salary increase risk*

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual salary increases are higher than expectation and impacts the liability accordingly.

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**13 LOAN FROM PARENT COMPANY**

On August 2021 and November 2021, the Company availed its facility from the Parent for SR 120 million and SR 100 million respectively in order to finance its margin lending facilities during the year. The profit rate agreed for the loan ranges from 1.15% to 1.50% per annum and is having a maturity of maximum 1 year.

**14 OTHER PAYABLES AND ACCRUALS**

	<b>31 December 2021</b>	31 December 2020
Payable to charities (note 14.1)	<b>13,951,453</b>	19,053,384
Staff bonus	<b>39,494,971</b>	35,006,831
Subscriptions payable	<b>3,944,911</b>	1,234,846
Accrued rent	<b>2,402,528</b>	3,672,132
VAT payable	<b>12,194,275</b>	16,790,645
Unearned rental income	<b>14,175,625</b>	12,060,557
Due to the Parent (note 21.2)	<b>4,627,620</b>	76,148
Others	<b>11,585,714</b>	14,850,546
	<b><u>102,377,097</u></b>	<b><u>102,745,089</u></b>

- 14.1** In accordance with the Sharia Committee's resolution, issued by the Sharia Board of the Company and adopted by management, share brokerage service fees earned relating to certain identified shares received by the Company is excluded from the determination of income for the year, and is recorded as a payable to authorized charities. The movement in payable to charities is as follows:

	<b>For the year ended 31 December</b>	
	<b>2021</b>	2020
At the beginning of the year	<b>19,053,384</b>	15,516,458
Additions during the year	<b>19,754,384</b>	17,177,717
Payments made during the year	<b>(24,856,315)</b>	(13,640,791)
At the end of the year	<b><u>13,951,453</u></b>	<b><u>19,053,384</u></b>

**15 DUE TO A RELATED PARTY - ZAKAT PAYABLE**

The Company does not file a separate Zakat return with the ZATCA as the Parent files a consolidated / single Zakat return based on its consolidated Zakat base and accordingly settles the Zakat liability with the ZATCA. Accordingly, the Company is not required to make any payment to the ZATCA.

- 15.1** The movement of Zakat payable is as follows:

	<b>For the year ended 31 December</b>	
	<b>2021</b>	2020
At the beginning of the year	<b>66,761,565</b>	20,941,786
Charge for the year (note 15.2)	<b>82,585,296</b>	66,761,565
Payments made during the year	<b>(66,761,565)</b>	(20,941,786)
At the end of the year	<b><u>82,585,296</u></b>	<b><u>66,761,565</u></b>

- 15.2** This represents the Company's portion of Zakat allocated by the Parent.



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**16 PROVISIONS**

These relate to various open litigation cases against the Company that might result in an unfavourable outcome. The Company believes that the outcome of these cases will not exceed the amount of provisions.

The movement in provisions is as follows:

	<b>For the year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
At the beginning of year	<b>167,435</b>	7,330,146
Addition during the year	<b>8,465,489</b>	-
Reversals during the year	-	(7,162,711)
At the end of the year	<b>8,632,924</b>	167,435

**17 SHARE CAPITAL**

	<b>31 December 2021</b>	<b>31 December 2020</b>
Number of Ordinary shares	<b>50,000,000</b>	50,000,000
Ordinary shares (amount)	<b>500,000,000</b>	500,000,000

- 17.1** The Company's share capital is wholly owned by Al Rajhi Banking and Investment Corporation (the "Parent") as of 31 December 2021 and 31 December 2020.

**18 OTHER GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>For the year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
IT licenses	<b>4,935,389</b>	4,097,411
Professional fees	<b>4,210,664</b>	6,873,154
IT support ( <i>note 21.1</i> )	<b>1,170,084</b>	1,170,084
Subscriptions	<b>2,588,585</b>	2,507,416
Utilities	<b>557,565</b>	576,912
Telecommunication	<b>1,758,032</b>	1,751,177
Directors' remuneration ( <i>note 21.1</i> )	<b>946,000</b>	948,000
Cleaning expenses	<b>381,781</b>	417,342
Professional indemnity insurance	<b>1,085,378</b>	701,371
Repair and maintenance	<b>334,103</b>	269,819
Client compensation on operation losses	<b>5,318,213</b>	183,645
Business travel & entertainment	<b>135,303</b>	118,064
Regulatory fees	<b>851,208</b>	281,634
Shariah Board fees	<b>450,000</b>	380,000
Other	<b>5,249,953</b>	1,557,728
	<b>29,972,258</b>	21,833,757

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**19 FINANCIAL INSTRUMENTS – FAIR VALUES**

**19.1 Fair value measurements of financial instruments**

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

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

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

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

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

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**19 FINANCIAL INSTRUMENTS - FAIR VALUES (CONTINUED)**

**19.1 Fair value measurements of financial instruments (continued)**

	<u>Accounting classification and carrying amount</u>				<u>Fair values</u>			
	<u>Fair value through profit or loss</u>	<u>Fair value through OCI</u>	<u>Amortized Cost</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>31 December 2021</u></b>								
<b>Financial assets</b>								
<i>Financial assets measured at fair value</i>								
Investments	491,730,010	364,978,757	-	856,708,767	255,049,757	218,271,248	383,387,762	856,708,767
<i>Financial assets not measured at fair value</i>								
Cash and cash equivalents*	-	-	12,712,679	12,712,679	-	-	-	-
Murabaha receivables*	-	-	2,589,588,752	2,589,588,752	-	-	-	-
Accrued income*	-	-	55,355,705	55,355,705	-	-	-	-
Advances and other receivables*	-	-	28,674,979	28,674,979	-	-	-	-
	<u>491,629,813</u>	<u>365,078,954</u>	<u>2,686,332,115</u>	<u>3,543,040,882</u>	<u>255,049,757</u>	<u>218,271,248</u>	<u>383,387,762</u>	<u>856,708,767</u>
<b>Financial liabilities</b>								
<i>Financial liabilities not measured at fair value</i>								
Loan from Parent Company*	-	-	220,783,667	220,783,667	-	-	-	-
Other payable and accruals*	-	-	76,328,949	76,328,949	-	-	-	-
	<u>-</u>	<u>-</u>	<u>297,112,616</u>	<u>296,112,616</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

\*The above financial assets and liabilities are expected to be settled within one year from the reporting date and hence the discounting impact would be immaterial. Therefore, carrying amount approximates the fair value as at the reporting date.

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**19 FINANCIAL INSTRUMENTS - FAIR VALUES (CONTINUED)**

**19.1 Fair value measurements of financial instruments (continued)**

	Accounting classification and carrying amount				Fair values			
	Fair value through profit or loss	Fair value through OCI	Amortized cost	Total	Level 1	Level 2	Level 3	Total
<u>31 December 2020</u>								
Financial assets								
<i>Financial assets measured at fair value</i>								
Investments	1,047,047,339	203,669,513	-	1,250,716,852	182,130,733	709,767,989	358,818,130	1,250,716,852
<i>Financial assets not measured at fair value</i>								
Cash and cash equivalents*	-	-	14,337,847	14,337,847	-	-	-	-
Murabaha receivables*	-	-	1,227,291,565	1,227,291,565	-	-	-	-
Accrued income*	-	-	37,208,794	37,208,794	-	-	-	-
Advances and other receivables*	-	-	20,063,764	20,063,764	-	-	-	-
	<u>1,047,047,339</u>	<u>203,669,513</u>	<u>1,298,901,970</u>	<u>2,549,618,822</u>	<u>182,130,733</u>	<u>709,767,989</u>	<u>358,818,130</u>	<u>1,250,716,852</u>
Financial liabilities								
<i>Financial liabilities not measured at fair value</i>								
Other payable and accruals*	-	-	73,893,887	73,893,887	-	-	-	-
	<u>-</u>	<u>-</u>	<u>73,893,887</u>	<u>73,893,887</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

\*The above assets and liabilities are expected to be settled within one year from the reporting date and hence the discounting impact would be immaterial. Therefore, carrying amount approximates the fair value as at the reporting date.

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**19 FINANCIAL INSTRUMENTS - FAIR VALUES (CONTINUED)**

**19.2 Fair valuation techniques**

Financial assets at fair value through profit or loss classified as Level 2 include investments in mutual funds, the fair value of which is determined based on the latest reported net assets value (NAV) as at the reporting date.

Financial assets at fair value through profit or loss classified as Level 3 include investment in an unquoted mutual fund, the fair value of which is determined based on net assets value (NAV) obtained from the latest available financial statements of the unquoted mutual fund.

The table shows a breakdown of the total losses due to change in fair value recognised in respect of Level 3 fair value.

	<u>2021</u>	<u>2020</u>
Loss included in investment gains	<u>516,783</u>	<u>3,788,603</u>

**19.3 Fair value transfers**

There have been no transfers between Level 1, Level 2 and Level 3 during the reporting periods.

**20 FINANCIAL RISK MANAGEMENT**

The Company's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Company's continuing profitability.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. These risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

- Credit risk
- Market risk
- Liquidity risk

**20.1 Credit risk**

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

The schedule below shows the maximum limit for exposure to credit risk of the statement of financial position elements:

	<b>31 December <u>2021</u></b>	31 December <u>2020</u>
Cash and cash equivalents	<b>12,712,679</b>	14,337,847
Murabaha receivables – gross	<b>2,589,937,395</b>	1,227,464,836
Investments	<b>153,452,319</b>	65,155,136
Accrued income	<b>55,355,705</b>	37,208,794
Advances and other receivables – gross	<b>51,482,167</b>	40,248,810
Total	<u><b>2,862,940,265</b></u>	<u>1,384,415,423</u>

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**20 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**20.1 Credit risk (continued)**

The cash and cash equivalents are held with banks with reputable standing within the Kingdom of Saudi Arabia. All of the bank balances are in current account and are held with the Parent which is rated A1 by Moody's as at 31 December 2021 (2020: A1).

The Company holds equity instruments of customers as collateral against Murabaha receivables which are carried at amortised cost. The value of collateral is regularly monitored by the Company to ensure that it is sufficient to cover the exposure of Murabaha receivables.

As part of the ongoing monitoring of Murabaha receivables, the Company requests additional collateral in the form of margin call by raising first margin call at 150%, and the final margin call at 135%, after which the shares are liquidated.

	<b>31 December 2021</b>	31 December 2020
Murabaha receivables – gross	<b>2,639,228,484</b>	1,227,464,836
Fair value of collateral held against the receivables	<b>5,816,834,102</b>	2,963,042,683

**Credit risk measurement**

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a Murabaha receivables and rental receivables entails estimations about the likelihood of defaults, associated loss ratios and default correlations of customers. The Company measures credit risk using ECL which is derived by PD, EAD and LGD.

a) **ECL - Significant increase in credit risk ("SICR")**

The prevailing economic conditions require the Company to continue to revise certain inputs and assumptions used for the determination of ECL. These primarily revolve around adjusting macroeconomic factors used by the Company in the estimation of ECL.

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Company's allowance for expected credit losses. The changing COVID-19 circumstances and the Government, business and customers responses could result in significant adjustments to the allowance in future financial years.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort.

The assessment of SICR incorporates forward-looking information and is performed on yearly basis for all financial instruments including those which are considered to have low credit risk by the Company. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Company.

b) **Generating the term structure of PD**

Monthly PDs are determined based on the incidents of Murabaha receivables liquidation and its weighted average exposures. In case of PD calculation, total value of liquidated cases are taken under total monthly portfolios. Annual PDs are calculated using the monthly PDs through binomial/ survival rate method.

The Company employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

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**20 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**20.1 Credit risk (continued)**

**Credit risk measurement (continued)**

b) Generating the term structure of PD (continued)

Through the Cycle (TTC) PD are determined using inverse of Vasicek methodology to get stable TTC PD. TTC PD is then calibrated to the current macroeconomic environment to obtain appropriate PD for the current business cycle. This is performed using the percent rank of current GDP growth, as against historical GDP performance data. Then 3 scenarios are considered; Baseline (Current), Upturn (Good) and Downturn (Worse). Based on the rank of GDP, the Sigma distance from the mean in a normal distribution is obtained (Z curve) for the baseline scenario. This has been capped subjecting to tail values (this is further be referred to as mean and tail computed for adverse and upturn scenarios). For computation of baseline, downturn and upturn scenario PDs, the TTC PD value is adjusted on the normal distribution using Sigmas computed earlier and the Basel IRB prescribed correlation for Retail Customers. Correlation for the above is computed employing Basel correlation formula as per Basel IRB approach.

c) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Company considers the minimum collateral coverage of Murabaha receivables. If the collateral value falls below 135%, it is considered as significant increase in credit risk and the customer is classified in Stage II.

In case of rental receivables, the Company considers that a significant increase in credit risk occurs no later than when a receivable is more than 30 days past due except in case of rebuttal. Days past due are determined by counting the days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the tenant.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due.

The Company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

**Stage 1:** for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Company recognises an allowance based on the 12-month ECL and profit is calculated on the gross carrying amount of asset (i.e. without deduction of credit allowances). All accounts at origination would be classified as Stage 1.

**Stage 2:** for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired (i.e. there is no objective evidence of impairment), the Company recognises an allowance for the lifetime ECL.

**Stage 3:** for credit-impaired (i.e. there is objective evidence of impairment at reporting date) financial instruments, the Company recognises the lifetime ECL. Default identification process is used as stage 3.

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**20 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**20.1 Credit risk (continued)**

**Credit risk measurement (continued)**

d) Definition of 'Default'

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security; or
- the rental receivable is past due more than 180 days

e) Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on above, the Company formulate 3 scenarios: Baseline (Current), Upturn (Good) and Downturn (Worst) for the future direction of relevant economic variables. External information includes economic data of current GDP growth, as against historical GDP performance data.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes. The other scenarios represent more optimistic and more pessimistic outcomes.

f) Measurement of ECL

Scenario weighted ECL have been calculated taken into account three different scenarios Baseline, Downturn and Upturn. The key inputs into the measurement of ECL are the term structure of the following variables:

- i. probability of default ("PD");
- ii. loss given default ("LGD"); and
- iii. 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 above.

PD estimates are estimates at a certain date, which are calculated based on statistical models as defined above in (b).

LGD is the magnitude of the likely loss if there is a default. Company's portfolio consists of four different kinds of portfolio coverage (as collaterals) and Cash position. Four different kinds of collateral coverage includes more than 200% coverage, between 170% to 200% coverage, between 170% to 150% coverage and below 150% coverage. Haircuts have been applied for above collateral coverage. LGDs are determined for each market condition (stable and volatile) under monthly portfolios. Average of LGDs across the periods has been taken to arrive at weighted average LGD of 0.46% considering the Stable Market Assumption whereas, average of LGDs across the periods has been taken to arrive at weighted average LGD of 2.71% considering the Volatile Market condition. However, for ECL calculations, Stable market assumption have been taken by the Company.

In the case of rental receivables, the Regulatory recommended LGD of 50% has been used for the ECL calculation.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty including the accrued profit.



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**20 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**20.1 Credit risk (continued)**

g) Loss allowance

**(i) Murabaha receivables**

	<b>31 December 2021</b>			
	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
Gross carrying amount	2,589,937,395	-	-	2,589,937,395
Expected credit loss	(348,643)	-	-	(348,643)
Net carrying amount	<u>2,589,588,752</u>	<u>-</u>	<u>-</u>	<u>2,589,588,752</u>

**(ii) Rental receivables**

Gross carrying amount	9,373,965	5,859,574	24,254,048	39,487,587
Expected credit loss	(32,550)	(309,905)	(22,464,732)	(22,807,188)
Net carrying amount	<u>9,341,415</u>	<u>5,549,669</u>	<u>1,789,316</u>	<u>16,680,399</u>

**(i) Murabaha receivables**

	<b>31 December 2020</b>			
	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
Gross carrying amount	1,227,464,836	-	-	1,227,464,836
Expected credit loss	(173,271)	-	-	(173,271)
Net carrying amount	<u>1,227,291,565</u>	<u>-</u>	<u>-</u>	<u>1,227,291,565</u>

**(ii) Rental receivables**

Gross carrying amount	6,590,626	4,304,522	23,355,334	34,250,482
Expected credit loss	(23,952)	(250,191)	(19,898,871)	(20,173,014)
Net carrying amount	<u>6,566,674</u>	<u>4,054,331</u>	<u>3,456,463</u>	<u>14,077,468</u>

At 31 December 2021 and 31 December 2020, the credit risk exposure for Murabaha receivables and rental receivables by geographic region was limited to KSA and UAE only.

The credit risk exposure for Murabaha receivables and rental receivables by type of customer is as follows:

	<b>31 December 2021</b>	<b>31 December 2020</b>
Retail customers	2,581,529,302	1,197,383,480
Corporate customers	47,895,680	65,654,421
	<u>2,629,424,982</u>	<u>1,263,037,901</u>

At 31 December 2021, the carrying amount of the Company's most significant customer was SR 113.1 million (2020: SR 51.7 million).

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**20 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**20.1 Credit risk (continued)**

**Credit risk measurement (continued)**

In determining the recoverability of Murabaha receivables, the Company considers any change in the credit quality of the Murabaha from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated other than one customer.

There are no impaired receivables since none of the receivables are past due.

The following table shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments:

	<b>For the year ended 31 December 2021</b>			
	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Life time ECL credit impaired</b>	<b>Total</b>
<i>Murabaha and rental receivables</i>				
At the beginning of the year	<b>196,986</b>	<b>266,048</b>	<b>19,883,251</b>	<b>20,346,285</b>
Net re-measurement of loss allowance	<b>184,207</b>	<b>43,857</b>	<b>2,581,482</b>	<b>2,809,546</b>
At the end of the year	<b>381,193</b>	<b>309,905</b>	<b>22,464,733</b>	<b>23,155,831</b>
	<b>For the year ended 31 December 2020</b>			
	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Life time ECL credit impaired</b>	<b>Total</b>
<i>Murabaha and rental receivables</i>				
At the beginning of the year	91,327	203,578	10,350,070	10,644,975
Net re-measurement of loss allowance	105,659	62,470	9,533,181	9,701,310
At the end of the year	196,986	266,048	19,883,251	20,346,285

The following table provides an explanation of how significant changes in the gross carrying amount of Murabaha receivables during the year contributed to changes in loss allowance:

	<b>2021</b>		
	<b>Impact: increase / (decrease)</b>		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
<u>Murabaha receivable – gross</u>			
Increase in lending as part of the Company's strategic growth initiative	<b>175,372</b>	-	-
	<b>2020</b>		
	<b>Impact: increase / (decrease)</b>		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
<u>Murabaha receivable - gross</u>			
Increase in lending as part of the Company's strategic growth initiative	100,494	-	-

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**20 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**20.2 Market risk**

**Profit rate risk**

Profit rate risk is the risk that the profit rate changed is not commensurate with financing cost due to changes in the market commission rate. The Company has fixed rate Murabaha receivables and payables; hence, the Company is not exposed to any profit rate risk. Further, the loan taken from the Parent Company is also fixed rate loan and therefore the Company is not exposed to any fixed rate risk.

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is not subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Arabian Riyals, Arab Emirates Dirham and US Dollars during the year. As Saudi Arabian Riyal and Arab Emirates Dirham are pegged to US Dollar, therefore the Company is not exposed to currency risk.

**Price risk**

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

The Company is exposed to market risk with respect to its investments in mutual funds and equity instruments. The Company limits market risks by diversification of its investments.

A change in the price of equity instruments with all other variables held constant, would impact the statement of other comprehensive income and statement of changes in equity as set out below:

<b>Change in Price %</b>	<b>For the year ended 31 December</b>	
	<b><u>2021</u></b>	<b><u>2020</u></b>
±5	± 4,387,523	± 1,676,119
±10	± 8,775,047	± 3,352,239

A change in the NAV of Level 3 investments, with all other variables held constant, would impact the statement of profit or loss as set out below:

<b>Change in NAV %</b>	<b>For the year ended 31 December</b>	
	<b><u>2021</u></b>	<b><u>2020</u></b>
±5	± 19,169,388	± 16,962,906
±10	± 38,338,776	± 33,925,813

**20.3 Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Murabaha deposits are generally placed for short periods to manage the Company's liquidity requirements. All financial liabilities on the Company's statement of financial position are contractually payable on a current basis. Liquidity risk at investment fund level is being managed through appropriate liquidity limits.

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**20 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**20.3 Liquidity risk (continued)**

The Company's liquidity management process is as follows:

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

The below schedule shows an analysis of financial liabilities based on the expected date of collection or settlement:

	<u>Total</u>	<u>0 - 1 year</u>	<u>1 - 5 years</u>	<u>No fixed maturity</u>
<b><u>31 December 2021</u></b>				
<b>Non-derivative financial liabilities</b>				
Loan from Parent Company	220,783,667	220,783,667	-	-
Other payables and accruals	76,007,197	76,007,197	-	-
	<u>296,790,864</u>	<u>296,790,864</u>	<u>-</u>	<u>-</u>

**31 December 2020**

Non-derivative financial liabilities				
Other payables and accruals	73,893,887	73,893,887	-	-
	<u>73,893,887</u>	<u>73,893,887</u>	<u>-</u>	<u>-</u>

**21 RELATED PARTY TRANSACTIONS AND BALANCES**

The related parties of the Company include the Parent and its affiliated entities and certain key management personnel. In the ordinary course of activities, the Company transacts business with its related parties on mutually agreed terms. Key management personnel includes the Chief Executive Officer ("CEO") and the personnel directly reporting to the CEO.

**21.1 Related party transactions**

The significant transactions with related parties in relation to the Company's core activities are as follows:

		<b>For the year ended 31 December</b>	
<u>Related party</u>	<u>Nature of transaction</u>	<u>2021</u>	<u>2020</u>
Al Rajhi Banking and Investment Corporation, the Parent	IT support expenses	1,170,084	1,170,084
	Fee for transfers	414,000	(69,000)
	Withholding tax	1,070,607	623,343
	Zakat paid	(66,761,565)	(20,941,786)
	IPO service fee from the Parent	2,511,520	2,610,505
	Shared asset management fee	8,883,166	-
	Interest on loan	783,667	-
	Others	5,000	-
Board of Directors members'	Remunerations	946,000	948,000
	Board meeting expenses	1,931	12,503
Al Rajhi Company for Management Services, a fellow subsidiary	Outsourcing of staff	522,063	582,081

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**21 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

**21.1 Related party transactions (continued)**

<u>Related party</u>	<u>Nature of transaction</u>	<b>For the year ended 31 December</b>	
		<u>2021</u>	<u>2020</u>
Al Rajhi Takaful Agency Company, a fellow subsidiary	Insurance	<b>1,319,379</b>	761,722
Key management Personnel	Employee benefits	<b>340,986</b>	393,160
	Salaries	<b>4,901,160</b>	4,405,947
	Allowances	<b>2,294,342</b>	2,245,793
	Annual and periodic bonuses	<b>5,694,000</b>	6,201,820
Funds managed by the Company	Income from asset management services	<b>84,308,195</b>	72,320,356
Al Rajhi REIT, a fund managed by the Company	Expenses incurred on behalf of REIT	<b>1,391,078</b>	743,000
Al Rajhi Development Company, a fellow subsidiary	Rental of office space	<b>6,250,000</b>	6,244,898

**21.2 Related party balances**

Significant balances with related parties are as follows:

<u>Related party</u>	<u>Nature of transaction</u>	<b>31 December 2021</b>	<b>31 December 2020</b>
Al Rajhi Banking and Investment Corporation, the Parent	IPO service fee receivable from the Parent	<b>1,468,448</b>	248,691
	Fee for transfers	<b>69,000</b>	69,000
	Others	<b>473,556</b>	744,785
	<b>Due from the Parent (note 11)</b>	<b>2,011,004</b>	1,062,476
	Withholding tax	<b>64,448</b>	76,148
	Loan from related party	<b>220,783,667</b>	-
	Shared asset management fee	<b>4,109,641</b>	-
	IT support expense	<b>448,531</b>	-
	Other	<b>5,000</b>	-
	<b>Due to the Parent (note 13)</b>	<b>225,411,287</b>	76,148
	<b>Due to a related party– zakat payable (note 14)</b>	<b>82,585,496</b>	66,761,565
Al Rajhi Real Estate Investment Trust (REIT)	<b>Receivable from REIT</b>	<b>4,662,377</b>	-
Al Rajhi Development	<b>Prepaid rent</b>	<b>3,643,836</b>	3,643,836
All Funds managed by the Company	<b>Accrued management fee</b>	<b>41,386,565</b>	32,804,742
Board of Directors members	<b>Remunerations</b>	<b>948,000</b>	948,000

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**21 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

**21.1 Related party balances (continued)**

<u>Related party</u>	<u>Nature of transaction</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
Key management personnel	Employee benefits	<u>1,227,203</u>	<u>1,755,432</u>
	Annual and periodic bonuses	<u>5,694,000</u>	<u>6,201,820</u>

**22 CAPITAL COMMITMENTS AND CONTINGENCIES**

As at 31 December 2021, the Company has capital commitments of SR 36,632,975 (2020: SR 10,645,654) with respect to ongoing work in progress related to intangibles.

The future minimum lease payments under non-cancellable operating leases, where the Company is the lessee, are as follows:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Within one year	<u>3,3735,064</u>	<u>3,732,191</u>

**23 CLIENTS' CASH ACCOUNTS**

At 31 December 2021, the Company was holding clients' cash accounts amounting to SR 9.6 billion (31 December 2020: SR 9.2 billion), to be used for investments on the clients' behalf. Consistent with its accounting policy, such balances are not included in the Company's financial statements as these are held by the Company in fiduciary capacity.

**24 ASSETS UNDER MANAGEMENT**

The Company manages investment portfolios and mutual funds on behalf of its customers, which amounts to SR 58.23 billion as at 31 December 2021 (31 December 2020: SR 50.22 billion). Consistent with its accounting policy, such balances are not included in the Company's financial statements as these are held by the Company in fiduciary capacity.

**25 CAPITAL ADEQUACY**

The CMA has issued Prudential Rules (the "Rules") dated 17 Safar 1434H (corresponding to 30 December 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:

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR'000</u>	<u>SAR'000</u>
<b>Capital base:</b>		
Tier 1 Capital	<u>4,403,230</u>	<u>3,685,992</u>
Tier 2 Capital	<u>31,546</u>	<u>5,190</u>
<b>Total capital base</b>	<u><b>4,434,776</b></u>	<u><b>3,691,182</b></u>

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**25 CAPITAL ADEQUACY (CONTINUED)**

	<b>31 December 2021 SAR'000</b>	31 December 2020 SAR'000
<b>Minimum capital requirement:</b>		
Market risk	5,747	4,563
Credit risk	1,574,522	1,293,039
Operational risk	115,909	94,862
<b>Total minimum capital required</b>	<b>1,696,178</b>	<b>1,392,464</b>
<b>Capital adequacy ratio:</b>		
<b>Total capital ratio (time)</b>	<b>2.61</b>	<b>2.65</b>
<b>Surplus in capital</b>	<b>2,738,598</b>	<b>2,298,718</b>

Capital Base of the Company comprises of:

- Tier-1 capital consists of paid-up share capital, retained earnings, reserves excluding revaluation reserves as per Article 4 of the Rules.
- Tier-2 capital consists of revaluation reserves as per Article 4 of the Rules.

The Minimum Capital Requirements for Market, Credit & Operational Risk are calculated as per the requirements specified in Part 3 of the Rules.

The Company is required to maintain adequate capital as specified in the Rules. The capital adequacy ratio shall not be less than 1.

Certain information as required by Pillar III of the Prudential Rules will be made available to the public on the Company's website, however, this information is not subject to review or audit by the external auditors of the Company.

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

**26 RECLASSION OF COMPARATIVES**

Investment banking income and impairment losses have been reclassified from other operating income in year ended 31 December 2020 for the purpose of better representation to reflect the substance of the transactions. Details are as follows:

	2020	
	As previously reported	Impact
		As stated
Effect on statement of comprehensive income		
Other operating income	15,010,667	13,561,331
Investment banking income	-	13,561,331
Impairment loss	(30,087,489)	(30,087,489)
Impairment loss on Murabaha and rent receivables	-	(9,701,310)
Impairment loss on investment property	-	(20,386,179)

The above reclassification adjustments do not result in changes to the net assets previously reported by the Company.

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**27    EVENTS OCCURING AFTER REPORTING DATE**

No events have occurred since the reporting date that require adjustments to or disclosure in the Financial Statements.

**28    DATE OF AUTHORIZATION**

These financial statements were authorized for issue on 23 February 2022 by the Board of Directors' of Al Rajhi Capital Company.