AL RAJHI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2020
together with the
Independent Auditor's Report

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Independent auditor's report

To the Shareholder 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 2020, 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 2020, 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 Certified Public Accountants ("SOCPA").

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 the SOCPA, the applicable requirements of the Regulations for Companies, the Company's By-Laws 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.

KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Independent auditor's report

To the Shareholder of Al Rajhi Capital Company (Continued)

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.

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

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

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

For KPMG Al Fozan & Partners
Certified Public Accountants

Dr. Abdullah Hamad Al Fozan
License No: 348

Al Riyadh: 4 Sha'ban 1442H
Corresponding to: 17 March 2021

AL RAJHI CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(Saudi Arabian Riyals)

	Notes	**31 December 2020**	31 December 2019	1 January 2019 (Restated - Note 26)
ASSETS				
Property and equipment	*4*	**319,252**	134,247	178,738
Intangible assets	*5*	**17,464,390**	19,704,672	14,662,363
Investment properties	*6*	**1,346,636,256**	1,383,848,561	1,297,590,446
Investments	*7*	**616,656,388**	467,962,801	448,692,478
Employee loan	*8*	-	**-**	1,758,000
Non-current assets		**1,981,076,286**	1,871,650,281	1,762,882,025
Investments	*7*	**634,060,464**	462,657,394	713,541,189
Murabaha receivables	*10*	**1,227,291,565**	811,748,697	383,977,951
Accrued income	*11*	**37,208,794**	26,882,256	19,348,880
Advances, prepayments and other receivables	*12*	**27,426,236**	62,510,136	32,024,244
Employee loan	*8*	-	1,758,000	**-**
Cash and cash equivalents	*9*	**14,337,847**	33,086,783	59,194,115
Current assets		**1,940,324,906**	1,398,643,266	1,208,086,379
Total assets		**3,921,401,192**	3,270,293,547	2,970,968,404
EQUITY AND LIABILITIES				
Equity				
Share capital	*17*	**500,000,000**	500,000,000	500,000,000
Statutory reserve	*3.9*	**250,000,000**	250,000,000	250,000,000
Fair value reserve	*3.16*	**6,888,936**	(4,049,861)	(21,916,895)
Retained earnings		**2,953,456,067**	2,376,729,751	2,104,642,233
Total equity		**3,710,345,003**	3,122,679,890	2,832,725,338
Liabilities				
Employee benefits	*13*	**41,382,100**	40,382,310	40,578,870
Non-current liabilities		**41,382,100**	40,382,310	40,578,870
Other payables and accruals	*14*	**102,745,089**	78,959,415	77,378,510
Due to a related party - Zakat payable	*15*	**66,761,565**	20,941,786	10,556,714
Provisions	*16*	**167,435**	7,330,146	9,728,972
Current liabilities		**169,674,089**	107,231,347	97,664,196
Total liabilities		**211,056,189**	147,613,657	138,243,066
Total equity and liabilities		**3,921,401,192**	3,270,293,547	2,970,968,404

The accompanying notes from 1 to 27 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 2020
(Saudi Arabian Riyals)

	Notes	**For the year ended 31 December**	
		2020	2019
Operating income			
Income from brokerage services, net		**541,159,712**	143,746,439
Income from asset management services		**117,471,801**	131,716,091
Rental income on investment properties	*6*	**100,710,780**	104,568,066
Gain on investments, net		**4,516,157**	18,395,033
Special commission income on Murabaha receivables		**47,850,984**	24,381,602
Special commission income on short-term placements		**-**	4,656,544
Dividend income		**22,983,451**	35,064,728
Other operating income		**15,010,667**	6,380,213
Total operating income		**849,703,552**	468,908,716
Operating expenses			
Salaries and employee related benefits		**(122,023,406)**	(117,817,988)
Depreciation	*4,6*	**(17,713,245)**	(17,752,386)
Amortisation	*5*	**(7,169,827)**	(4,761,071)
Rental expense		**(6,591,527)**	(5,244,394)
Other general and administrative expenses	*18*	**(21,833,757)**	(22,734,697)
Promotion and marketing expenses		**(85,420)**	(267,787)
Impairment losses	*6, 10.1, 12.1*	**(30,087,489)**	(7,301,089)
Total operating expenses		**(205,504,671)**	(175,879,412)
Operating profit		**644,198,881**	293,029,304
Zakat charge	*15.1*	**(66,761,565)**	(20,941,786)
Profit for the year		**577,437,316**	272,087,518
Other comprehensive income for the year:			
Items that will not be reclassified to profit and loss in subsequent periods:			
Investments at FVOCI – net change in fair value		**10,938,797**	17,867,034
Remeasurement of defined benefit liability	*13*	**(711,000)**	-
Total other comprehensive income for the year		**10,227,797**	17,867,034
Total comprehensive income for the year		**587,665,113**	289,954,552

The accompanying notes from 1 to 27 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 2020
(Saudi Arabian Riyals)

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

	Share capital	Statutory reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2019 (as reported)	500,000,000	250,000,000	-	2,082,725,338	2,832,725,338
Prior period adjustment (Note 26)	--	--	(21,916,895)	21,916,895	--
Balance as at 1 January 2019 (as restated)	500,000,000	250,000,000	(21,916,895)	2,104,642,233	2,832,725,338
Total comprehensive income					
Profit for the year	--	--	--	272,087,518	272,087,518
Other comprehensive income for the year	--	--	17,867,034	--	17,867,034
Total comprehensive income for the year	--	--	17,867,034	272,087,518	289,954,552
Balance as at 31 December 2019	500,000,000	250,000,000	(4,049,861)	2,376,729,751	3,122,679,890

The accompanying notes from 1 to 27 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 2020
(Saudi Arabian Riyals)

	Notes	For the year ended 31 December	
		2020	2019
Cash flows from operating activities			
Operating profit		**644,198,881**	293,029,304
Adjustments for:			
Depreciation	*4,6*	**17,713,245**	17,752,386
Amortisation	*5*	**7,169,827**	4,761,071
Special commission income on Murabaha receivables		**(47,850,984)**	(24,381,602)
Special commission income on short-term placements		-	(4,656,544)
Provision for impairment on investment property	*6*	**20,386,179**	**-**
Gain on investments, net		**(4,516,157)**	(18,395,033)
Provision for credit impairment losses	*10.1,12.1*	**9,701,310**	7,301,089
Changes in:			
Murabaha receivables		**(367,792,378)**	(403,421,237)
Accrued income		**(10,326,538)**	(7,533,376)
Employee loan		**1,758,000**	**-**
Advances, prepayments and other receivables		**25,483,084**	(37,754,888)
Other payables and accruals		**23,785,674**	1,580,905
Contribution to defined benefit plan		**288,790**	(196,560)
Provisions		**(7,162,711)**	(2,398,826)
Zakat paid	*15.1*	**(20,941,786)**	(10,556,714)
Net cash generated from / (used in) operating activities		**291,894,436**	(184,870,025)
Cash flows from investing activities			
Acquisition of property and equipment	*4*	**(307,909)**	(614,434)
Acquisition of intangible assets	*5*	**(4,929,545)**	(9,803,380)
Acquisition of investment property	*6*	**(764,215)**	(103,478,965)
Acquisition of investments		**(745,641,703)**	(741,000,000)
Proceeds from sale of investments		**441,000,000**	1,013,532,083
Proceeds from sale of property and equipment		-	127,389
Net cash (used in) / generated from investing activities		**(310,643,372)**	158,762,693
Decrease in cash and cash equivalents		**(18,748,936)**	(26,107,332)
Cash and cash equivalents at the beginning of the year		**33,086,783**	59,194,115
Cash and cash equivalents at the end of the year	*9*	**14,337,847**	33,086,783

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

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 2020 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 Certified Public 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.

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 a “second wave” of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia (“the Government”) however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalization.

Recently, number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of individuals which should be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the COVID-19 vaccine, the testing results have showed exceptionally high success rates. Hence, the Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. The Company has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Company 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.

3 BASIS OF PREPARATION (CONTINUED)

c) Critical accounting estimates and judgments (continued)

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.

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;
(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.

2 BASIS OF PREPARATION (CONTINUED)

c) Critical accounting estimates and judgments (continued)

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.

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*.

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, comprising of actuarial gains and losses and the return on plan assets (excluding net interest), 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 and related plan assets are 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 property

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.

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 and effective

- Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB Board has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard do not have a significant impact on the Company's financial statements.

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB Board has also issued guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS Standards. The standard do not have a significant impact on the Company's financial statements.

- On 29 March 2018, the IASB Board has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the IASB Board to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process - this means that the overall impact on standard setting may take some time to crystallize. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs. The standard do not have a significant impact on the Company's financial statements.

- Interest Rate Benchmark Reform which amended IFRS 9, IAS 39 and IFRS 7 is applicable for annual financial periods beginning on or after 1 January 2020. The G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks. Following the review, the FSB published a report setting out its recommended reforms of some major interest rate benchmarks such as IBORs. Public authorities in many jurisdictions have since taken steps to implement those recommendations. This has in turn led to uncertainty about the long-term viability of some interest rate benchmarks. In these amendments, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark including its replacement with an alternative benchmark rate, such as that resulting from the FSB's recommendations set out in its July 2014 report 'Reforming Major Interest Rate Benchmarks' (the reform). The amendments made provide relief from the potential effects of the uncertainty caused by the reform. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform. The standard do not have a significant 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

a) Classification of financial assets (continued)

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.

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.

Business model assessment

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

a) Classification of financial assets (continued)

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.

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.

b) 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.

c) 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

c) Derecognition (continued)

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

d) 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.

e) 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

c) 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Impairment of non-financial assets

ARC 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:

	Years
Leasehold improvements	Period of lease or 3 years, whichever is shorter
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.

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 property

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 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.

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 2019: 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).

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 rateably 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.

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

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-Islamic sources. Accordingly, all non-Islamic 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.

3.16 Fair value reserve

The fair value reserve comprises the cumulative net change in fair value of investments designated at FVOCI.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 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.

3.18 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.

3.19 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.

3.20 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

	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Computer hardware	Total
Cost:					
Balance at 1 January 2019	730,686	1,057,599	390,000	1,964,922	4,143,207
Additions	--	34,973	--	579,461	614,434
Disposals	(730,686)	(595,350)	--	(1,497,046)	(2,823,082)
Balance at 31 December 2019	--	497,222	390,000	1,047,337	1,934,559
Balance at 1 January 2020		**497,222**	**390,000**	**1,047,337**	**1,934,559**
Additions		**57,814**	**-**	**250,095**	**307,909**
Balance at 31 December 2020		**555,036**	**390,000**	**1,297,432**	**2,242,468**
Accumulated depreciation:					
Balance at 1 January 2019	730,669	948,864	390,000	1,894,936	3,964,469
Charge for the year	-	57,610	-	473,926	531,536
Disposals	(730,669)	(554,148)	-	(1,410,876)	(2,695,693)
Balance at 31 December 2019	-	452,326	390,000	957,986	1,800,312
Balance at 1 January 2020	**-**	**452,326**	**390,000**	**957,986**	**1,800,312**
Charge for the year	**--**	**26,912**	**--**	**95,992**	**122,904**
Balance at 31 December 2020	**--**	**479,238**	**390,000**	**1,053,978**	**1,923,216**
Carrying amount:					
1 January 2019	17	108,735	-	69,986	178,738
31 December 2019	--	44,896	--	89,351	134,247
31 December 2020	**-**	**75,798**	**-**	**243,454**	**319,252**

5 INTANGIBLE ASSETS

	For the year ended 31 December	
	2020	2019
Cost:		
At the beginning of the year	**55,431,851**	45,628,471
Additions	**4,929,545**	9,803,380
At the end of the year	**60,361,396**	55,431,851
Accumulated amortization:		
At the beginning of the year	**35,727,179**	30,966,108
Charge for the year	**7,169,827**	4,761,071
At the end of the year	**42,897,006**	35,727,179
Carrying amount at the end of the year	**17,464,390**	19,704,672

Intangible assets represent core and related systems softwares; work in progress in respect of development / improvements to systems softwares. As at 31 December 2020, intangible assets include work in progress amounting to SR 2,992,760 (31 December 2019: SR 5,468,645)

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.

	Land	**Buildings**	**Total**
Cost			
Balance at 1 January 2019	811,670,934	538,775,718	1,350,446,652
Additions	82,753,000	20,725,965	103,478,965
Balance at 31 December 2019	894,423,934	559,501,683	1,453,925,617
Balance at 1 January 2020	**894,423,934**	**559,501,683**	**1,453,925,617**
Additions	**-**	**764,215**	**764,215**
Balance at 31 December 2020	**894,423,934**	**560,265,898**	**1,454,689,832**
Impairment			
Charge for the year	**-**	**20,386,179**	**20,386,179**
Balance as at 31 December 2020	**-**	**20,386,179**	**20,386,179**
Accumulated depreciation			
Balance at 1 January 2019	-	52,856,206	52,856,206
Charge for the year	-	17,220,850	17,220,850
Balance at 31 December 2019	-	70,077,056	70,077,056
Balance at 1 January 2020	-	**70,077,056**	**70,077,056**
Charge for the year	-	**17,590,341**	**17,590,341**
Balance at 31 December 2020	-	**87,667,397**	**87,667,397**
Carrying amount:			
1 January 2019	811,670,934	485,919,512	1,297,590,446
31 December 2019	894,423,934	489,424,627	1,383,848,561
31 December 2020	**894,423,934**	**452,212,322**	**1,346,636,256**

6 INVESTMENT PROPERTIES (CONTINUED)

Investment properties comprise of the following:

		31 December 2020				
Category	**Location**	**Cost**	**Accumulated depreciation**	**Impairment**	**Carrying amounts**	**Fair value**
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 2020		**1,454,689,832**	**(87,667,397)**	**(20,386,179)**	**1,346,636,256**	**1,528,140,000**

		31 December 2019				
Category	Location	Cost	Accumulated depreciation	Impairment	Carrying amounts	Fair value
Distribution Centre	Riyadh, KSA	393,764,675	(24,541,667)	-	369,223,008	412,660,000
Mall	Jeddah, KSA	362,528,682	(9,806,077)	-	352,722,605	353,850,000
Warehouse	Jebel Ali, UAE	227,224,834	(26,509,564)	-	200,715,270	234,827,973
Commercial Headquarter	Riyadh, KSA	169,281,983	(2,532,488)	-	166,749,495	167,280,000
Mall	Jeddah, KSA	139,876,925	(3,427,616)	-	136,449,309	138,460,000
Warehouse	Riyadh, KSA	58,474,424	(2,946,815)	-	55,527,609	57,050,000
Mall	Riyadh, KSA	102,774,094	(312,829)	-	102,461,265	111,430,000
As at 31 December 2019		1,453,925,617	(70,077,056)	-	1,383,848,561	1,475,557,973

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 2020	For the year ended 31 December 2019
Rental income	**100,710,780**	104,568,066
Cost of income	**(22,215,676)**	(22,680,352)
	78,495,104	81,887,714

6 INVESTMENT PROPERTIES (CONTINUED)

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

	31 December 2020	31 December 2019
Within one year	**98,196,086**	106,182,115
Later than one year but not later than 5 years	**388,327,267**	383,796,849
Later than 5 years	**227,581,187**	250,799,108
	714,104,540	740,778,072

7 INVESTMENTS

Investments portfolio is summarised as follows:

	31 December 2020	31 December 2019
Non-current		
Corporate debt securities - at FVTPL	**43,616,356**	-
Investments in mutual funds - at FVTPL	**369,370,519**	352,459,102
- at FVOCI	**148,608,344**	115,063,699
Equity securities - at FVOCI	**33,522,389**	440,000
Corporate debt securities - at FVOCI	**21,538,780**	-
	616,656,388	467,962,801
Current		
Investment in a mutual fund- at FVTPL	**634,060,464**	462,657,394
	1,250,716,852	930,620,195

7.1 The table below summarises the investments in mutual funds:

	31 December 2020	31 December 2019
Quoted		
Al Rajhi Commodity Fund	**634,060,464**	462,657,394
Al Rajhi REIT Fund	**148,608,344**	115,063,699
Al Rajhi Sukuk Fund	**5,641,039**	5,430,104
Al Rajhi MENA Fund	**4,911,350**	4,422,265
	793,221,197	587,573,462
Unquoted		
Alinma Makkah Real Estate Fund	**338,818,130**	342,606,733
NCB Sukuk Fund	**20,000,000**	-
	1,152,039,327	930,180,195

8 EMPLOYEE LOAN

This represents a non-profit bearing loan to a senior executive officer of the Company.

	31 December 2020	31 December 2019
Employee loan – Current portion	**-**	1,758,000

9 CASH AND CASH EQUIVALENTS

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

10 MURABAHA RECEIVABLES

Murabaha receivables are as follows:

	31 December 2020	31 December 2019
Gross Murabaha receivables	**1,255,470,017**	834,064,672
Less: Unearned profit	**(45,662,884)**	(33,279,780)
Principal outstanding	**1,209,807,133**	800,784,892
Accrued profit on principal outstanding	**17,657,703**	11,036,582
Less: Allowance for credit impairment losses on Murabaha receivables *(note 10.1)*	**(173,271)**	(72,777)
	1,227,291,565	811,748,697

As at 31 December 2020, Murabaha receivables have original maturity tenure ranging from 3 to 12 months (31 December 2019: 3 to 12 months). Further, these Murabaha receivables carry profit rates ranging from 2.80% to 8.00% per annum (31 December 2019: 3.50% to 9.40% per annum).

As at 31 December 2020 and 2019, Murabaha receivables were neither past due nor impaired (31 December 2019: not past due).

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

	For the year ended 31 December	
	2020	2019
At the beginning of the year	**72,777**	40,684
Charge for the year	**100,494**	32,093
At the end of the year	**173,271**	72,777

11 ACCRUED INCOME

	31 December 2020	31 December 2019
Management fees	**32,804,742**	25,577,380
Others	**4,404,052**	1,304,876
	37,208,794	26,882,256

12 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2020	31 December 2019
Gross rental receivables	**34,250,482**	28,032,649
Less: Allowance for credit impairment losses *(note 12.1)*	**(20,173,014)**	(10,572,198)
Net rental receivables	**14,077,468**	17,460,451
Advance to Al Rajhi Real Estate Investment Trust ("REIT") *(note 21.2)*	**-**	30,000,000
Due from the Parent *(note 21.2)*	**1,062,476**	997,889
Prepayments	**7,350,440**	7,298,305
Advances to employees	**183,566**	297,880
Other receivables	**4,752,286**	6,455,611
	27,426,236	62,510,136

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

	For the year ended 31 December	
	2020	2019
At the beginning of the year	**10,572,198**	3,303,202
Charge for the year	**10,760,313**	7,268,996
Reversal for the year	**(1,159,497)**	
At the end of the year	**20,173,014**	10,572,198

12.2 The ageing of rental receivables is as follows:

	31 December 2020	31 December 2019
Less than 30 days	**6,590,626**	8,370,802
30 – 180 days	**4,304,522**	3,961,708
More than 180 days	**23,355,334**	15,700,139
	34,250,482	28,032,649

13 EMPLOYEE BENEFITS

13.1 The movement in employee benefits is as follows:

	For the year ended 31 December	
	2020	2019
Balance at 1 January	**40,382,310**	40,578,870
Included in profit or loss		
- current service cost	**4,456,790**	4,050,897
- financing cost	**1,658,000**	1,702,000
	6,114,790	5,752,897
Included in OCI		
Remeasurement: Actuarial loss arising from:		
- financial assumptions	**1,611,000**	-
- experience adjustments	**(900,000)**	-
	711,000	-
Benefits paid	**(5,826,000)**	(5,949,457)
Balance as at 31 December	**41,382,100**	40,382,310

13 EMPLOYEE BENEFITS (CONTINUED)

13.2 Principal actuarial assumptions

	31 December 2020	31 December 2019
Discount rate (%)	**2.45**	4.50
Future salary increases (%)	**2.40**	4.00
Turnover (%):		
- Age 18-25	**31.25**	31.25
- Age 26-30	**25.00**	25.00
- Age 31-50	**12.50**	12.50
- Age 51-59	**6.25**	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 10.2 years (31 December 2019: 9.7 years).

Salary increases

The salary escalation of 2.4% (31 December 2019: 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.

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

	31 December 2020	31 December 2019
Discount rate		
1 % increase	**(3,498,000)**	(3,250,000)
1% decrease	**4,066,000**	3,756,000
Future salary increases		
1% increase	**3,532,000**	3,737,000
1% decrease	**(4,026,000)**	(3,294,000)
Turnover		
20% increase	**(513,000)**	(303,000)
20% decrease	**537,000**	288,000

13.4 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.

13 EMPLOYEE BENEFITS (CONTINUED)

13.4 Risks associated with the defined benefit plans (continued)

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.

14 OTHER PAYABLES AND ACCRUALS

	31 December 2020	31 December 2019
Payable to charities *(note 14.1)*	**19,053,384**	15,516,458
Staff bonus	**35,006,831**	25,378,144
Subscriptions payable	**1,234,846**	3,471,887
Accrued rent	**3,672,132**	2,487,537
VAT payable	**16,790,645**	2,988,994
Unearned rental income	**12,060,557**	15,154,288
Due to the Parent *(note 21.2)*	**76,148**	21,828
Others	**14,850,546**	13,940,279
	102,745,089	78,959,415

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:

	For the year ended 31 December	
	2020	2019
At the beginning of the year	**15,516,458**	20,701,401
Additions	**17,177,717**	4,511,214
Payments made during the year	**(13,640,791)**	(9,696,157)
At the end of the year	**19,053,384**	15,516,458

15 DUE TO A RELATED PARTY - ZAKAT PAYABLE

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

15.1 The movement of Zakat payable is as follows:

	For the year ended 31 December	
	2020	2019
At the beginning of the year	**20,941,786**	10,556,714
Charge for the year *(note 15.2)*	**66,761,565**	20,941,786
Payments made during the year	**(20,941,786)**	(10,556,714)
At the end of the year	**66,761,565**	20,941,786

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

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:

	For the year ended 31 December	
	2020	2019
At the beginning of year	**7,330,146**	9,728,972
Reversals during the year	**(7,162,711)**	(2,398,826)
At the end of the year	**167,435**	7,330,146

17 SHARE CAPITAL

	31 December 2020	31 December 2019
Number of Ordinary shares	**50,000,000**	50,000,000
Ordinary shares (amount)	**500,000,000**	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 2020 and 31 December 2019.

18 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2020	2019
IT licenses	**4,097,411**	4,416,264
Professional fees	**6,873,154**	4,073,425
IT support *(note 21.1)*	**1,170,084**	3,016,777
Subscriptions	**2,507,416**	2,473,078
Utilities	**576,912**	1,713,066
Telecommunication	**1,751,177**	1,541,960
Directors' remuneration *(note 21.1)*	**948,000**	946,000
Cleaning expenses	**417,342**	848,943
Professional indemnity insurance	**701,371**	607,424
Repair and maintenance	**269,819**	543,173
Client compensation on operation losses	**183,645**	463,341
Business travel & entertainment	**118,064**	421,588
Regulatory fees	**281,634**	355,253
Shariah Board fees	**380,000**	320,000
Other	**1,557,728**	994,405
	21,833,757	22,734,697

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.

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
31 December 2020								
Financial assets								
Financial assets measured at fair value								
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**
Financial assets not measured at fair value								
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**	-	-	-	-
	1,047,047,339	**203,669,513**	**1,298,901,970**	**2,549,618,822**	**182,130,733**	**709,767,989**	**358,818,130**	**1,250,716,852**
Financial liabilities								
Financial liabilities not measured at fair value								
Other payable and accruals	-	-	**102,745,089**	**102,745,089**	-	-	-	-
			102,745,089	**102,745,089**				

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
31 December 2019								
Financial assets								
Financial assets measured at fair value								
Investments	815,556,496	115,063,699	-	930,620,195	115,063,699	472,509,763	343,046,733	930,620,195
Financial assets not measured at fair value								
Cash and cash equivalents	-	-	33,086,783	33,086,783	-	-	-	-
Murabaha receivables	-	-	811,748,697	811,748,697	-	-	-	-
Employee loan	-	-	1,758,000	1,758,000	-	-	-	-
Accrued income	-	-	26,882,256	26,882,256	-	-	-	-
Advances and other receivables	-	-	55,211,831	55,211,831	-	-	-	-
	815,556,496	115,063,699	928,687,567	1,859,307,762	115,063,699	472,509,763	343,046,733	930,620,195
Financial liabilities								
Financial liabilities not measured at fair value								
Other payable and accruals	-	-	19,921,531	19,921,531	-	-	-	-
	-	-	19,921,531	19,921,531	-	-	-	-

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 investments in equity securities recorded at cost and 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.

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:

	31 December 2020	31 December 2019
Cash and cash equivalents	**14,337,847**	33,086,783
Murabaha receivables – gross	**1,227,464,836**	811,821,474
Investments	**65,155,136**	--
Accrued income	**37,208,794**	26,882,256
Employee loan	**-**	1,758,000
Advances and other receivables – gross	**40,248,810**	65,784,029
Total	**1,384,415,423**	939,332,542

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. Significant portion 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 2020.

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.

	31 December 2020	31 December 2019
Murabaha receivables – gross	**1,227,464,836**	811,821,474
Fair value of collateral held against the receivables	**2,963,042,683**	2,139,690,998

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.

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.

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");
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.

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

20.1 Credit risk (continued)

g) Loss allowance

(i) **Murabaha receivables**

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

(ii) **Rental receivables**

	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
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	**6,566,674**	**4,054,331**	**3,456,463**	**14,077,468**

(i) Murabaha receivables

	31 December 2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount	811,821,474	--	--	811,821,474
Expected credit loss	(72,777)	--	--	(72,777)
Net carrying amount	811,748,697	--	--	811,748,697

(ii) Rental receivables

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount	8,370,802	3,961,708	15,700,139	28,032,649
Expected credit loss	(18,550)	(203,578)	(10,350,070)	(10,572,198)
Net carrying amount	8,352,252	3,758,130	5,350,069	17,460,451

At 31 December 2020 and 31 December 2019, 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:

	31 December 2020	31 December 2019
Retail customers	**1,197,383,480**	787,989,084
Corporate customers	**65,654,421**	51,865,039
	1,263,037,901	839,854,123

At 31 December 2020, the carrying amount of the Company's most significant customer was SR 38.5 million (2019: SR 64 million).

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:

	For the year ended 31 December 2020			
	12 month ECL	**Life time ECL not credit impaired**	**Life time ECL credit impaired**	**Total**
Murabaha and rental receivables				
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**

	For the year ended 31 December 2019			
	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Murabaha and rental receivables				
At the beginning of the year	57,893	377,024	2,908,969	3,343,886
Net re-measurement of loss allowance	33,434	(173,446)	7,441,101	7,301,089
At the end of the year	91,327	203,578	10,350,070	10,644,975

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.

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.

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

20.2 Market risk (continued)

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

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

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:

	For the year ended 31 December	
Change in NAV %	**2020**	2019
±5	+ **16,962,906**	± 17,152,337
±10	+ **33,925,813**	± 34,304,673

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.

The Company's liquidity management process is as follows:

a. 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;
b. Monitoring liquidity ratios against internal and regulatory requirements;
c. Managing the concentration and profile of debt maturities; and
d. 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:

31 December 2020	**Total**	**0 - 1 year**	**1 - 5 years**	**No fixed maturity**
Non-derivative financial liabilities				
Other payables and accruals	**19,833,672**	**19,833,672**	--	--
31 December 2019				
Non-derivative financial liabilities				
Other payables and accruals	19,921,531	19,921,531	--	--

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:

Related party	Nature of transaction	For the year ended 31 December 2020	2019
Al Rajhi Banking and Investment Corporation, the Parent	IT support expenses	**1,170,084**	3,016,777
	Rental of office space	**-**	1,799,145
	Fee for transfers	**(69,000)**	(126,000)
	Withholding tax	**623,343**	1,033,190
	Zakat paid	**(20,941,786)**	(10,556,714)
	IPO service fee from the Parent	**2,610,505**	2,383,204
	Others	**-**	22,053
Board of Directors members'	Remunerations	**948,000**	946,000
	Board meeting expenses	**12,503**	22,053
Al Rajhi Company for Management Services, a fellow subsidiary	Outsourcing of staff	**582,081**	456,223
Al Rajhi Takaful Agency Company, a fellow subsidiary	Insurance	**761,722**	705,221
Al Fursan, common directorship	Business travel and air tickets	**-**	27,087
Key management personnel	Employee benefits	**393,160**	528,830
	Salaries	**4,405,947**	5,039,400
	Allowances	**2,245,793**	2,578,856
	Annual and periodic bonuses	**6,201,820**	7,299,420
Funds managed by the Company	Income from asset management services	**72,320,356**	84,176,160
Al Rajhi REIT, a fund managed by the Company	Advance to REIT	**-**	30,000,000
	Expenses incurred on behalf of REIT	**743,000**	6,669,075
Al Rajhi Development	Rental of office space	**6,244,898**	2,611,267

21 RELATED PARTY TRANSACTIONS AND BALANCES

21.2 Related party balances

Significant balances with related parties are as follows:

Related party	Nature of transaction	**31 December 2020**	31 December 2019
Al Rajhi Banking and Investment Corporation, the Parent	IPO service fee receivable from the Parent	**248,691**	767,810
	Fee for transfers	**69,000**	--
	Others	**744,785**	230,079
	Due from the Parent *(note 12)*	**1,062,476**	997,889
	Custodian fee	**-**	--
	Withholding tax	**76,148**	21,828
	Due to the Parent *(note 14)*	**76,148**	21,828
	Due to a related party– zakat payable *(note 15)*	**66,761,565**	20,941,786
Al Rajhi Real Estate Investment Trust (REIT)	Advance to REIT	**-**	30,000,000
	Receivable from REIT	**-**	--
Al Rajhi Development	Prepaid rent	**3,643,836**	3,638,733
All Funds managed by the Company	Accrued management fee	**32,804,742**	25,577,380
Board of Directors members	Remunerations	**948,000**	--
Key management personnel	Employee benefits	**1,755,432**	4,111,835
	Annual and periodic bonuses	**6,201,820**	7,299,420
	Employee loan	**-**	1,758,000

22 CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2020, the Company has capital commitments of SR 10,645,654 (2019: SR 9,252,143).

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

	31 December 2020	31 December 2019
Within one year	**3,732,191**	3,811,464
Later than one year but not later than 5 years	**-**	--
	3,732,191	3,811,464

23 CLIENTS' CASH ACCOUNTS

At 31 December 2020, the Company was holding clients' cash accounts amounting to SR 9.2 billion (31 December 2019: SR 4.8 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 50.22 billion as at 31 December 2020 (31 December 2019: SR 42.1 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:

	31 December 2020 SAR'000	31 December 2019 SAR'000
Capital base:		
Tier 1 Capital	**3,685,992**	3,102,975
Tier 2 Capital	**5,190**	--
Total capital base	**3,691,182**	3,102,975
Minimum capital requirement:		
Market risk	**4,563**	19,987
Credit risk	**1,293,039**	1,229,003
Operational risk	**94,862**	75,640
Total minimum capital required	**1,392,464**	1,324,630
Capital adequacy ratio:		
Total capital ratio (time)	**2.65**	2.34
Surplus in capital	**2,298,718**	1,778,345

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.

25 CAPITAL ADEQUACY (CONTINUED)

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 PRIOR PERIOD ADJUSTMENT

During the year ended 31 December 2020, the Company's management identified an accounting error relating to the prior period. This prior period error has been retrospectively rectified in these financial statements by restating the relevant opening balances affected by the correction. The relevant details of the foregoing adjustment and its impact on the previously reported comparative amounts is summarized below:

Rectification of classification of financial investment

During prior years, the Company had classified a certain investment as held at FVTPL based on an assumption that the investment carried an unconditional obligation of the issuer to make annual profit payments to corresponding holders. During the year ended 31 December 2020, based on a reassessment of the nature of investment, the Company has identified and concluded the correct nature of the investment to be consistent with an equity instrument from a holder perspective. Accordingly, in lieu of Company's intention to hold the investment beyond the short-term with a strategic view, the most appropriate classification for the investment has been determined to be FVOCI.

The foregoing correction in classification has been rectified by restating the balances of retained earnings and accumulated revaluation losses on investments as at 1 January 2019 and 31 December 2019, and, by restating the amount of gain on investments and unrealised fair value loss on investments for the year ended 31 December 2019. The effects of these adjustments on the statements of financial position and statement of profit and loss and other comprehensive income are illustrated below:

	Previously reported	Impact of adjustment	As re-stated
Statement of Financial Position as at 1 January 2019			
Retained earnings	2,082,725,338	21,916,895	2,104,642,233
Other reserves - Fair value reserve	-	(21,916,895)	(21,916,895)
Statement of Financial Position as at 31 December 2019			
Retained earnings	2,372,679,890	4,049,861	2,376,729,751
Other reserves - Fair value reserve	-	(4,049,861)	(4,049,861)
Statement of Profit or Loss for the year ended 31 December 2019			
Gain on investments, net	36,262,067	(17,867,034)	18,395,033
Statement of Other Comprehensive Income for the year ended 31 December 2019			
Other reserves - Fair value reserve	-	17,867,034	17,867,034

26 PRIOR PERIOD ADJUSTMENT (CONTINUED)

The aforementioned adjustment did not have any effect on the Zakat and Tax obligations of the Company for the year ended 31 December 2019 or the financial periods prior to that.

27 DATE OF AUTHORIZATION

These financial statements were authorized for issue on 22 February 2021 by the Board of Directors' of Al Rajhi Capital Company.