



The Northern Trust Company of Saudi Arabia
(A Saudi Closed Joint Stock Company)

Financial Statements

For the year ended 31 December 2021

Together with the Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

**TO: THE SHAREHOLDERS OF
THE NORTHERN TRUST COMPANY OF SAUDI ARABIA
(A Saudi Closed Joint Stock Company)**

Opinion

We have audited the financial statements of **The Northern Trust Company of Saudi Arabia (the "Company")**, which comprise the statement of financial position as at December 31, 2021, and the statements of profit or loss, comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs), that are endorsed in Kingdom of Saudi Arabia, and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements 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 the International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA"), the Companies Regulations, 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 are responsible for overseeing the Company's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (Continued)
THE NORTHERN TRUST COMPANY OF SAUDI ARABIA
(A Saudi Closed Joint Stock Company)

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 ISAs 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 the 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 ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment 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, we are required to draw attention in our auditors' 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 auditors' 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.



Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountants



Salman B. Al Sudairy
Licence No. 283

28 Sha'ban 1443H (31 March 2022)
Riyadh, Saudi Arabia

**Statement of Financial Position
As at 31 December 2021**

<u>Assets</u>	<u>Note</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
		<u>SAR</u>	<u>SAR</u>
Non-current assets			
Property and equipment, net	6	2,053,809	2,698,899
Right of Use assets, net	22	1,869,117	2,592,647
Deferred tax asset	19	440,256	382,156
Total non-current assets		4,363,182	5,673,702
Current assets			
Cash and cash equivalents, net	7	140,349,416	117,244,820
Due from related parties	8	4,094,350	66,013
Accrued income and fee receivable, net	9	33,926,659	30,682,147
Prepayments and other current assets	11	1,431,662	940,026
Total current assets		179,802,087	148,933,006
Total assets		184,165,269	154,606,708
Liabilities			
Non-current liabilities			
Employees' end of service benefits	12	1,225,583	908,416
Leases	22	799,875	1,523,996
Total non-current liabilities		2,025,458	2,432,412
Current liabilities			
Due to related parties	8	484,160	1,032,632
Accrued expenses and other liabilities	10	12,055,405	4,465,664
Tax provisions	19	1,044,461	1,678,672
Leases	22	730,964	747,283
Total current liabilities		14,314,990	7,924,251
Total Liabilities		16,340,448	10,356,663
Shareholder's Equity			
Share capital	13	52,000,000	52,000,000
Statutory reserves	14	14,623,566	12,281,292
Remeasurement reserve of employee's end of service benefits		288,447	136,414
Retained earnings		100,912,808	79,832,339
Total shareholder's equity		167,824,821	144,250,045
Total liabilities and shareholder's equity		184,165,269	154,606,708

Statement of Profit or Loss
For the Year Ended 31 December 2021

	<u>Note</u>	<u>For the Year Ended</u> <u>31 December 2021</u> <u>SAR</u>	<u>For the Year Ended</u> <u>31 December 2020</u> <u>SAR</u>
Revenues			
Revenue from contracts with customers	15	46,931,712	42,694,469
Transfer pricing revenues	8	34,703,348	25,033,738
Custodian fees		(31,229,730)	(12,927,987)
Net operating revenues		50,405,330	54,800,220
Expenses			
Salaries and employee related expenses		(12,712,116)	(14,052,510)
Legal and professional expenses		(2,581,707)	(2,719,307)
Occupancy expenses		(304,908)	(450,419)
Business development expenses		(84,336)	(68,944)
Depreciation	6,22	(1,439,581)	(1,642,440)
Interest expense	22	(42,021)	(58,190)
Other expenses		(3,854,123)	(4,175,615)
Total operating expenses		(21,018,792)	(23,167,425)
Operating profit		29,386,538	31,632,795
Other income	16	427,960	1,409,431
Profit before income tax		29,814,498	33,042,226
Income tax expense	19	(6,391,755)	(6,798,212)
Profit for the year		23,422,743	26,244,014

Statement of Comprehensive Income
For the Year Ended 31 December 2021

	<u>Note</u>	<u>For the Year Ended</u> <u>31 December 2021</u>	<u>For the Year Ended</u> <u>31 December 2020</u>
		<u>SAR</u>	<u>SAR</u>
Profit for the year		23,422,743	26,244,014
<i>Items that will not be reclassified to profit or loss in subsequent years</i>			
Actuarial gains on defined benefit obligations	12	190,041	337,491
Related deferred tax	19	(38,008)	(67,498)
		<u>152,033</u>	<u>269,993</u>
Total comprehensive income for the year		<u>23,574,776</u>	<u>26,514,007</u>

**Statement of Changes in Shareholder's Equity
For the Year Ended 31 December 2021**

	<u>Share Capital</u> <u>SAR</u>	<u>Statutory Reserves</u> <u>SAR</u>	<u>Remeasurement Reserve of Employees' End of Service Benefits</u> <u>SAR</u>	<u>Retained Earnings</u> <u>SAR</u>	<u>Shareholder's Equity Total</u> <u>SAR</u>
<u>Balance as at 1 January 2020</u>	52,000,000	9,656,891	(133,579)	56,212,726	117,736,038
Total profit for the year	-	-	-	26,244,014	26,244,014
Actuarial gains on employees' end of service benefits	-	-	269,993	-	269,993
Transfer to statutory reserves	-	2,624,401	-	(2,624,401)	-
<u>Balance as at 31 December 2020</u>	<u>52,000,000</u>	<u>12,281,292</u>	<u>136,414</u>	<u>79,832,339</u>	<u>144,250,045</u>
Total profit for the year	-	-	-	23,422,743	23,422,743
Actuarial gains on employees' end of service benefits	-	-	152,033	-	152,033
Transfer to statutory reserves	-	2,342,274	-	(2,342,274)	-
<u>Balance as at 31 December 2021</u>	<u>52,000,000</u>	<u>14,623,566</u>	<u>288,447</u>	<u>100,912,808</u>	<u>167,824,821</u>

Statement of Cash Flows
For the Year Ended 31 December 2021

	Note	For the Year Ended 31 December 2021 SAR	For the Year Ended 31 December 2020 SAR
<u>Cash flows from operating activities</u>			
Profit for the year		23,422,743	26,244,014
<i>Adjustments to reconcile net income to net cash generated in operating activities:</i>			
Depreciation	6,22	1,439,581	1,642,440
Other non monetary items		2	18,357
Provision for employees' end of service benefits	12	523,100	468,107
Interest expense	22	42,021	58,190
Income tax	19	6,391,755	6,798,212
		<u>31,819,202</u>	<u>35,229,320</u>
<u>Changes in operating assets and liabilities:</u>			
(Increase)/decrease in related party balances		(4,576,809)	25,225,172
Increase in prepayments and other current assets		(491,636)	(229,484)
Increase in accrued income and fee receivables		(2,696,040)	(16,128,466)
Decrease in accrued expenses and other current liabilities		7,041,267	762,968
Employees' end of service benefits paid	12	(15,892)	(120,992)
Income tax paid	19	(7,122,075)	(8,718,487)
Net cash from operating activities		<u>23,958,017</u>	<u>36,020,031</u>
<u>Cash flows from investing activities</u>			
Purchase of property and equipment	6	(70,961)	(1,083,158)
Net cash used in investing activities		<u>(70,961)</u>	<u>(1,083,158)</u>
<u>Cash flows from financing activities</u>			
Payments for the principal portion of the lease liability	22	(782,460)	(782,460)
Net cash used in financing activities		<u>(782,460)</u>	<u>(782,460)</u>
Net increase in cash and cash equivalents		23,104,596	34,154,413
Cash and cash equivalents at beginning of the year		<u>117,244,820</u>	<u>83,090,407</u>
Cash and cash equivalents at end of the year		<u>140,349,416</u>	<u>117,244,820</u>
Non-cash transactions			
Actuarial gain on defined benefit obligation		190,041	337,491

Notes to the Financial Statements For the year ended 31 December 2021

1. Organisation and its activities

The Northern Trust Company of Saudi Arabia ("the Company") is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010366439 issued in Riyadh on 22 Rabi Al Thani 1434H (corresponding to 04 March 2013), the Capital Market Authority ("CMA") license No. 12163-26 dated 25 Shawwal 1433H (corresponding to 12 September 2012) and ministerial resolution number 70/Q dated 21 Rabi Al Awai 1434H (corresponding to 02 February 2013). The Company received its full CMA operating license on 6 Dhul Al Qa'dah 1434H (corresponding to 12 September 2013).

The Company's registered office is located at the following address: The Northern Trust Company of Saudi Arabia, P.O. Box 3515, Riyadh 11481, Kingdom of Saudi Arabia. The Company is a subsidiary of The Northern Trust Scottish Limited Partnership ("the Holding Company"), registered in the United Kingdom. The ultimate holding Company is The Northern Trust Corporation ("the Group"), registered in the United States of America.

The principal activities of the Company are to offer custody and advisory services relating to financial securities and to manage investment funds and private investment portfolios on behalf of its customers.

2. Basis of preparation of financial statements

a) Statement of compliance

The accompanying financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA").

The Company prepared its financial statements for all periods including the year ended 31 December 2021 in accordance with the International Financial Reporting Standards (IFRS) as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA").

b) Basis of measurement

The financial statements have been prepared on historical cost basis using the accrual basis of accounting and the going concern assumption, except for provision for employees' end service benefits which is recognised on present value.

c) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals ("SAR"), which is the functional currency of the Company. All financial information presented in Saudi Arabian Riyal has been rounded to the nearest Riyals, except where otherwise indicated.

3. Standards and amendments issued

The accounting policies adopted are consistent with those of the previous financial year.

a) Standards and interpretations in issue but not yet effective

The IASB has completed a project to consider the financial reporting implications of interbank offered rates (IBORs) reform and issued guidance to assist entities to provide useful information about the effects of the transition to alternative benchmark rates. In August 2020, the IASB issued "Interest Rate Benchmark Reform Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16" ("the Phase 2 Amendments"). The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards to provide useful information about the impact of adopting alternative interest rate benchmarks. This guidance is effective on or after January 1st, 2021.

The Company is not party to any loan contracts, debt contracts, lease contracts and other contracts with potential embedded derivatives that reference an IBOR, nor does it employ hedge accounting. Thus the Company is not impacted by IBOR Reform.

The following standards, amendments and interpretations were in issue at the date of authorisation of these financial statements, but not yet effective, and therefore were not applied in these financial statements.

The impact of the adoption of these standards is currently being assessed; however, the directors anticipate that the adoption of these standards, amendments and interpretations in future periods will not have a significant impact on the financial statements of the Company.

• 1 January 2022

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
Annual Improvements to IFRS Standards 2018 – 2021
Property, Plant and Equipment Proceeds before Intended Use (Amendments to IAS 16)
Reference to the Conceptual Framework (Amendments to IFRS 3)

Notes to the Financial Statements For the year ended 31 December 2021

3. Standards and amendments issued (continued)

a) Standards and interpretations in issue but not yet effective (continued)

- 1 January 2023 Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts
- Available for adoption Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
(Amendments to IFRS 10 and IAS 28)

4. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed in the other notes. These policies have been applied to all the years presented, unless otherwise stated.

a) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight line basis over the estimated useful lives of assets.

Residual values, useful lives and the method of the depreciation are reviewed annually and adjusted, if appropriate. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. The depreciation charge for the period is recognized in profit or loss.

Expenditure for repair and maintenance is charged to the profit or loss. Improvements that increase the value or materially extend the useful life of the related assets are capitalized. The estimated useful lives of assets for calculation of depreciation are as follows:

Leasehold improvements	15 years or lease term whichever is lower
Office equipment	3-5 years
Office furniture	10 years

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the statement of profit or loss.

b) Revenue recognition

Fee income is recorded on the accrual basis, over the period in which the service is provided. Fees are a function of the market value of assets serviced, the volume of transactions, and fees for other services rendered as set forth in the underlying client agreement. This revenue recognition involves the use of estimates and assumptions, including components that are calculated based on estimated asset valuations and transaction volumes. Revenue recognition from contracts with customers is further explained in note 15.

Commission Income: Commission income on term deposits is recognized on accrual basis.

c) Operating Expenses

The Company follows accrual basis of accounting to record the operating expenses and recognised as expenses in the period in which they are incurred. Expenses that are deferred for more than one financial period are allocated to expenses over such periods using historical cost.

d) Payables and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the service provider or not.

e) Employees' end of service benefits

Company operates employees' end of service benefits in accordance with the Saudi Arabian regulations. The benefits are accrued using the projected unit credit method as required by IAS 19. Employee' end service liability is estimated using the average service life of employees, retirement age and historical average salary increments.

The liability is discounted using the appropriate discount rate. The current service and financial cost is charged to profit or loss and actuarial gains/ losses are recognised in the statement of other comprehensive income. The obligation is discharged when employee service terminates.

**Notes to the Financial Statements
For the Year Ended 31 December 2021**

4. Summary of significant accounting policies (continued)

f) Financial instruments

• Classification and measurement - financial assets

Classification and measurement of financial assets are based on the underlying business model and estimated cash flows.

Any derivatives embedded in the contracts are not separated and is considered as a whole for classification. The financial assets are principally categorized as under;

- Measured at amortized cost
- Fair value through other comprehensive income (FVTOCI)
- Fair value through profit or loss (FVTPL)

Financial assets that are initially recognized at fair value are subsequently measured at amortized cost based on expected credit loss (ECL) described below:

- 12-month expected credit losses- expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date.
- Lifetime expected credit losses- expected credit losses that result from all possible default events over the life of the financial instrument.

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not constitute a financing transaction in accordance with IFRS 15.

• Trust fee receivables

Trust fee receivables are classified as loans and receivables and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest rate method less any provision for impairment. A provision for impairment is made where there is objective evidence, including customers with financial difficulties or in default on payments, that amounts will not be recovered in accordance with original terms of the agreement. An allowance for impairment is recognised when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective commission rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognized in the consolidated statement of profit or loss and other comprehensive income.

• Financial liabilities

Financial liabilities include accrued expenses and other liabilities and are classified according to the substance of the respective contractual arrangement and are initially measured at their fair value, net of transaction costs.

Financial liabilities are subsequently carried at their amortised cost, with commission cost being recognised on an effective yield basis in the consolidated statement of profit or loss and other comprehensive income over the term of the instrument.

• Trade payables

Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

g) Leases

The Company recognises a "right-of-use" ("ROU") asset and a lease liability at lease commencement date for all leases [except for those with a lease term of 12 months or less for which the short-term lease exemption is applied]. The lease liability is measured at the present value of the lease payments that are not paid at lease commencement and discounted using the Company's incremental borrowing rate. The ROU asset is initially measured at an amount equal to the lease liability, adjusted for any initial direct costs incurred and any lease payments made or incentives received before the commencement date.

The Company will present the interest expense on the lease liability and depreciation charge for the ROU asset separately in the statement of profit or loss. The ROU asset is depreciated using the straight-line method from the commencement date.

The Company presents ROU assets in "non-current assets" on the Statement of Financial Position and lease liabilities in "non-current liabilities" on the Statement of Financial Position.

Notes to the Financial Statements For the Year Ended 31 December 2021

4. Summary of significant accounting policies (continued)

h) Offsetting

Financial assets and liabilities are offset and are reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

i) Foreign currency transactions

Foreign currencies transactions are translated and recorded in Saudi Riyals using the exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year-end exchange rates are recognised in profit or loss.

j) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and 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 reviewed at each statement of financial position date and are adjusted to reflect the current best estimates.

k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks in current accounts and other short- term liquid investments with original maturities of three month or less, if any, which are available to the Company without any restrictions.

l) Taxation

The income tax expense is the tax payable on the current period's taxable income based on the regulations of the Zakat, Tax and Custom Authority ("ZATCA").

Deferred income tax is provided in full, using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts used for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The Company withholds taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with ZATCA regulations.

m) Dividends

Interim dividends are recorded as liability in the period in which the Board of Directors approves them. Final Dividends are recorded in the period in which they are approved by the shareholders.

n) Share based payments

The Company grants rights of its parent's equity instrument to its employees, these share-based payments are accounted as cash-settled. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet and settlement date with any changes to fair value being recognised in the profit and loss account. Fair value is measured by the use of the Black Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral conditions.

o) Impairment of financial assets

• Cash and cash equivalents

The Company operates current accounts and hold placements with banks for a maximum period of 3 months. These bank accounts and short term placements are subject to impairment requirements under IFRS 9.

Notes to the Financial Statements For the Year Ended 31 December 2021

4. Summary of significant accounting policies (continued)

• Cash and cash equivalents (continued)

IFRS 9 replaced the "incurred loss" impairment approach and instead requires an "expected loss model" which result in an allowance based on forward-looking information, versus delaying recognition of a credit loss until a credit loss event occurs. The Company applies a general approach to impairment and assess all cash and cash equivalents to carry low credit risk at the reporting date, therefore only recognise 12 months expected credit loss allowance, which reflect expected credit losses that are based on an unbiased and probability-weighted amount, the time value of money, and reasonable and supportable forward-looking information.

Impairment loss if any, are presented as net within operating profit and are included in other operating expenses.

• Trust and other servicing fees receivables

IFRS 9 replaces the existing "incurred loss" impairment approach and instead requires an "expected loss model" which result in an allowance based on forward-looking information, versus delaying recognition of a credit loss until a credit loss event occurs. The Company applies simplified approach to impairment and uses a provision matrix for measuring impairment loss at the reporting date.

Impairment loss, if any, are presented as net within operating profit and are included in other operating expenses.

p) Impairment of non-financial assets

Non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-current assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the profit or loss.

5. Critical accounting estimates

a) Measurement of contract assets and trade receivables

The management makes significant assumptions on the estimation of expected credit loss (ECL) in connection with trust fee receivables which is assessed based on the terms of contract and evaluation is made where there is objective evidence, including customers with financial difficulties or in default on payments, possibilities of bankruptcy of the customer that amounts will not be recovered in accordance with original terms of the agreement. Based on such periodic assessment the Company recognises for full lifetime expected losses for all trust fee receivables with or without significant financing transaction and for lease receivables. For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses in accordance with IFRS 9.

b) Useful lives, residual values and depreciation method of equipment and fixture

The Group's management determines the estimated useful lives of equipment and fixture for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear.

Management reviews the useful lives, residual values and depreciation method of equipment and fixture annually and future depreciation charge would be adjusted where the management believes the useful lives, residual values and depreciation method differ from previous estimates.

c) Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

While estimating the fair value of an asset or a liability the group takes into consideration the assumptions that market participants would use when pricing the asset or liability for their best economic interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the best use or by selling it to another market participant for the best use.

The Group 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.

**Notes to the Financial Statements
For the Year Ended 31 December 2021**
5. Critical accounting estimates (continued)
c) Fair value measurements (continued)

For the financial reporting purpose, The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities;

- Level 1: Quoted prices in active markets for the same instrument (i.e., without modification or additions);
- Level 2: Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

6. Property and equipment, net

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Cost	3,493,572	3,671,078
Less: Accumulated depreciation	<u>(1,439,763)</u>	<u>(972,179)</u>
Net book value at year end	<u>2,053,809</u>	<u>2,698,899</u>

	<u>Leasehold improvements</u>	<u>Furniture & Fixtures</u>	<u>Total</u>
	<u>SAR</u>	<u>SAR</u>	<u>SAR</u>
Cost:			
Balance at the beginning of the year	2,832,117	838,961	3,671,078
Additions	48,624	22,337	70,961
Disposals	-	(248,467)	(248,467)
Balance at the end of year	<u>2,880,741</u>	<u>612,831</u>	<u>3,493,572</u>
Accumulated depreciation:			
Balance at the beginning of the year	442,185	529,994	972,179
Charge for the year	581,253	134,798	716,051
Retirements	-	(248,467)	(248,467)
Balance at end of the year	<u>1,023,438</u>	<u>416,325</u>	<u>1,439,763</u>

7. Cash and cash equivalents, net

The term deposit was placed with local banks and carries a interest rate ranging from 0.3% to 0.65% per annum (2020: 0.45% to 1.75% per annum) with a maturity period of three months from the date of deposit.

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Cash and Bank - current accounts	40,373,037	32,303,225
Term deposits	<u>100,000,000</u>	<u>85,000,000</u>
	140,373,037	117,303,225
Less: Provision for impairment	<u>(23,621)</u>	<u>(58,405)</u>
	<u>140,349,416</u>	<u>117,244,820</u>

Movement in the impairment provision for cash and equivalents

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Opening balance	58,405	9,923
Provision for the year	<u>(34,784)</u>	<u>48,482</u>
Closing balance	<u>23,621</u>	<u>58,405</u>

Notes to the Financial Statements For the Year Ended 31 December 2021

8. Related party transactions and balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or one other party controls both. The definition includes Shareholders, the Northern Trust Corporation Group ("the Group"), its affiliated companies and key management personnel.

The Company contracts with related parties in the ordinary course of its business in order to provide services to clients of the Company and to procure services for the Company from unrelated vendors. The related party contracts are not separately valued and no compensation is paid. The Company accounts for revenues and expenses as calculated under the Group's global transfer pricing methodology.

Transfer pricing refers to the determination of compensation for transactions conducted between commonly controlled taxpayers. The determination of an appropriate level of compensation is relevant for all transactions between affiliates for the provision of services, the utilization of intellectual property and/or intercompany financing. This determination is made using an "arm's-length" standard that tests what would have occurred in comparable circumstances between comparable, unrelated taxpayers.

The Group's global transfer pricing methodology uses a residual profit split approach that allocates profit by providing appropriate recognition of each entity's contribution, revenues and expenses, its function in the Group, and its assets and risk profile. The framework also accounts for the fact that each of the Group's service line may engage multiple affiliates to perform functions of varying complexity and value.

The residual profit split methodology framework starts with the Group's global revenue which is first used to reimburse most direct costs of affiliates with a routine margin. The remaining profit is then split into product related profit pools which are in turn allocated to affiliates, such as the Company, using product specific allocation keys. The allocation keys are reflective of the economics of the Group's lines of business. The determination and the ultimate selection of the appropriate allocation keys begins with an evaluation of the metrics that are representative of relative contributions made by the various entities with respect to each of the product lines. Allocation keys are reassessed on a global basis periodically to ensure that these continue to be representative of the relative contributions of the various product lines.

Transactions entered between related parties during the year ended 31 December are as follows:

<u>Related party</u>	<u>Nature of transaction</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
		<u>SAR</u>	<u>SAR</u>
Affiliates	Net revenue under the transfer pricing policy	34,703,348	25,033,738
	Salaries and employees related expenses - allocation of employee costs (share based compensation)	574,799	332,619

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company (directly or indirectly) and comprise the Directors and Executives of the Company.

Compensation is allocated based on the apportionment of time incurred by Key Management Personnel in respect of qualifying services to the Company.

The compensation of the key management personnel for the year ended December were as follows

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Salaries and short term benefits	7,287,880	5,389,187
End service benefits	-	887,825
Share-based payments	710,710	290,863
	<u>7,998,590</u>	<u>6,567,875</u>

The end of service benefits payable to key management personnel were as follows:

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
End of service benefits payable	<u>435,773</u>	<u>261,663</u>

Notes to the Financial Statements For the Year Ended 31 December 2021

8. Related party transactions and balances (continued)

The independent non-executive directors are entitled to a fee on basis of their respective service agreements with the Company. The fee for December 2021 was SAR 500,000 (Dec 2020: SAR 500,000)

The related party balances outstanding at 31 December are as follows:

	31 December 2021	31 December 2020
	SAR	SAR
Due from related parties		
The Northern Trust Company, USA	4,088,275	-
The Northern Trust Company, London Branch	-	66,013
Northern Trust Global Services SE Sweden Bankfilial	6,075	-
	<u>4,094,350</u>	<u>66,013</u>

	31 December 2021	31 December 2020
	SAR	SAR
Due to related parties		
The Northern Trust Company, USA	-	878,285
The Northern Trust Company, London Branch	227,544	-
Other affiliates	256,616	154,347
	<u>484,160</u>	<u>1,032,632</u>

9. Accrued income and fee receivable, net

	31 December 2021	31 December 2020
	SAR	SAR
Accrued fee income	11,830,459	11,226,585
Accrued commission income	78,153	56,431
Trust and other service fee receivables	<u>22,635,801</u>	<u>19,975,233</u>
	34,544,413	31,258,249
Less: Provision for impairment	<u>(617,754)</u>	<u>(576,102)</u>
	<u>33,926,659</u>	<u>30,682,147</u>

Movement in the impairment provision for trust and other service fee receivables

	31 December 2021	31 December 2020
	SAR	SAR
Opening balance	576,102	182,083
Provision for the year	<u>41,652</u>	<u>394,019</u>
Closing balance	<u>617,754</u>	<u>576,102</u>

Ageing of trust and other service fee receivables

	31 December 2021	31 December 2020
	SAR	SAR
Neither past due nor impaired	27,742	15,897,598
Past due but not impaired		
Less than 180 days	20,989,960	2,361,743
Less than 365 days	1,156,566	1,621,623
More than 365 days	461,533	94,269
Total past due but not impaired	<u>22,608,059</u>	<u>4,077,635</u>
Total	<u>22,635,801</u>	<u>19,975,233</u>

Notes to the Financial Statements For the Year Ended 31 December 2021

10. Accrued expenses

	31 December 2021	31 December 2020
	SAR	SAR
Accrued custodian fees	10,103,436	2,480,251
Accounts payable	24,437	43,014
Staff related expenses payable	1,370,216	882,455
Other accrued expenses	557,316	1,059,944
	<u>12,055,405</u>	<u>4,465,664</u>

11. Prepayments and other current assets

	31 December 2021	31 December 2020
	SAR	SAR
Prepaid expenses	975,490	940,026
Other current assets	456,172	-
	<u>1,431,662</u>	<u>940,026</u>

12. Employee's end of service benefits

General description

The company provides an end service benefits to all employees in accordance with the Saudi Arabia regulations.

Principal actuarial assumptions

The actuarial valuation was carried out based on projected unit credit method, using the following significant assumptions.

Principal actuarial assumptions	31 December 2021	31 December 2020
	SAR	SAR
Valuation discount rate	2.65%	2.25%
Rate of salary increases	5.00%	5.00%
Withdrawal rate	10.00%	10.00%

Reconciliation of defined benefit obligation

	31 December 2021	31 December 2020
	SAR	SAR
Present value of defined benefits obligation	1,225,583	908,416
Net Liability	<u>1,225,583</u>	<u>908,416</u>

Movement of defined benefit obligation

	31 December 2021	31 December 2020
	SAR	SAR
Opening balance	908,416	880,432
Charge to income statement	523,100	486,467
Charge to comprehensive income	(190,041)	(337,491)
Payment of benefits during the year	(15,892)	(120,992)
	<u>1,225,583</u>	<u>908,416</u>

**Notes to the Financial Statements
For the Year Ended 31 December 2021**
12. Employee's end of service benefits (continued)
Reconciliation of present value of defined benefit obligations

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Opening balance	908,416	880,432
Current service cost	498,382	453,780
Financial cost	24,718	32,687
Actuarial gain from experience adjustments	(190,041)	(337,491)
Benefits paid	(15,892)	(120,992)
	<u>1,225,583</u>	<u>908,416</u>

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Sensitivity Analysis		
0.5% decrease in discount rate	59,166	46,391
1.00% decrease in salary	(105,198)	(81,904)
5.00% decrease in withdrawal rate	326,189	276,509

13. Share capital

As at 31 December 2021, the authorised, issued and paid-up share capital of the Company is SR 52 million divided into 5.2 million shares of SR 10 each (31 December 2020: SR 52 million divided into 5.2 million shares of SR 10 each).

14. Statutory reserve

In accordance with the Company's By-laws, the Company is required to transfer at least 10% of its net income for the year to a statutory reserve until such reserve equals 30% of its paid up capital as a minimum. Accordingly, this reserve is not available for distribution. The Company has transferred 10% of its net income for the year to statutory reserve.

15. Revenue from contracts with customers

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Revenue from assets owners	18,191,629	15,443,359
Revenue from fund managers	28,740,083	27,251,110
	<u>46,931,712</u>	<u>42,694,469</u>

- Trust and other servicing fees**

Trust, and other servicing fees, comprise of revenues from our core asset servicing business for providing custody, fund administration and middle office and related services primarily to Assets Owners and Fund Managers.

- Performance obligations**

Customers are billed in arrears either monthly or quarterly, based on the fee arrangement agreed. The payment terms will vary depending on the client and services offered.

All revenues generated from contracts with customers are recognised on an accrual basis, over the period in which services are provided. The nature of the Company's performance obligations is to provide a series of distinct services in which the customer simultaneously receives and consumes the benefits of the promised services as they are performed. Fee arrangements are mainly comprised of variable amounts based on market value of client assets serviced, transaction volumes and number of accounts.

**Notes to the Financial Statements
For the Year Ended 31 December 2021**
15. Revenue from contracts with customers (continued)
• Performance obligations (continued)

Revenues accruals are recognized using the output method to an amount that reflects the consideration the Company expects to be entitled to in exchange for providing each month or quarter of service. The revenue recognition involves the use of estimates and assumptions, including components that are calculated based on estimated asset valuations and transaction volumes.

Receivables are recognised when performance obligations are fully satisfied and invoice is issued, at this point of time the consideration is unconditional because only the passage of time is required before the payment is due.

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Trust and other service fee receivables	22,635,801	19,975,233
Accrued fee income	11,830,459	11,226,585
	<u>34,466,260</u>	<u>31,201,818</u>

16. Other income

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Commission income	411,632	831,465
Other	16,328	577,966
	<u>427,960</u>	<u>1,409,431</u>

17. Impairment loss

During the year, the following losses were recognised in the profit or loss under other operating expenses, in relation to impaired financial assets.

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Reversal of impairment reserve recognised on cash and cash equivalents	(34,784)	48,482
Impairment loss on Trust and other service fee receivables	41,652	394,019
	<u>6,868</u>	<u>442,501</u>

18. Share based payments

The Company participates in the Northern Trust Corporation Stock Plan. Plan provides for the grant of non-qualified stock options, incentive stock options, stock appreciation rights, stock awards, stock units and performance stock units. Below is the information relevant to the Company for grants outstanding at year end.

Grant dates: 2 August 2021, 17 February 2021, 18 February 2020, 19 February 2019 and 20 February 2018.

Vesting period: 4 years from date of grant

Vesting conditions: Employee to remain employed during the vesting period

Method of settlement: Shares

Awards granted during the year 2,344 (2020: 652)

Market price at award date USD 111.94 & USD 97.46 at 2 August 2021 and 17 February 2021 respectively (2020: USD 100.83)

Total expenses for share based payment for the year was SR 574,799 (2020: SR 332,619).

**Notes to the Financial Statements
For the Year Ended 31 December 2021**
19. Tax provisions

	<u>31 December 2021</u>	<u>31 December</u>
	<u>SAR</u>	<u>2020 SAR</u>
Current tax		
Current year exposure	6,421,923	7,104,011
Adjustments in respect of previous periods	65,940	(98,779)
	<u>6,487,863</u>	<u>7,005,232</u>
Deferred tax		
Defined benefit pension obligations	(101,442)	(73,095)
Fixed assets	5,334	(133,925)
Total	<u>(96,108)</u>	<u>(207,020)</u>
Total Tax charge	<u>6,391,755</u>	<u>6,798,212</u>

Factors affecting tax charge for the year

The Company has made a provision for income tax of SR 6.4 million (2020: 6.8 million) for income tax for the year ended 31 December 2021 on the following basis:

INCOME TAX	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Profit on ordinary activities before tax	29,814,498	33,042,226
Profits on ordinary activities multiplied by the current rate of corporation tax of 20% (2020: 20%)	<u>5,962,899</u>	<u>6,608,446</u>
Total tax		
<i>Effects of:</i>		
Permanent differences	459,024	495,585
Deferred tax movements	(96,108)	(207,020)
Adjustment to the tax charge in respect of previous periods	65,940	(98,799)
Tax charge for the year	<u>6,391,755</u>	<u>6,798,212</u>
Movement in the provision		
Balance at the beginning of the year	1,678,672	3,391,929
Charge for the year - current year	6,421,924	7,104,009
Charge for the year - prior year	65,940	(98,779)
Payment made during the year	(7,122,075)	(8,718,487)
Balance at the end of the year	<u>1,044,461</u>	<u>1,678,672</u>

Income tax declaration for the year ended 31 December 2021 will be submitted to the Zakat, Tax and Custom Authority in due course.

Deferred tax assets

	<u>Assets 2021</u>	<u>Assets 2020</u>	<u>Net 2021</u>	<u>Net 2020</u>
	<u>SAR</u>	<u>SAR</u>	<u>SAR</u>	<u>SAR</u>
Recognised deferred tax assets and liabilities				
Fixed assets	195,140	200,474	195,140	200,474
Defined benefit pension scheme	245,116	181,682	245,116	181,682
	<u>440,256</u>	<u>382,156</u>	<u>440,256</u>	<u>382,156</u>

**Notes to the Financial Statements
For the Year Ended 31 December 2021**
19. Tax provisions (continued)

<u>Movement in deferred tax during the year</u>	<u>01 Jan 2021</u> <u>SAR</u>	<u>Recognised in</u> <u>Income</u> <u>SAR</u>	<u>Recognised in</u> <u>OCI SAR</u>	<u>31 Dec 2021</u> <u>SAR</u>
	200,474	(5,334)	-	195,140
	181,682	101,442	(38,008)	245,116
	<u>382,156</u>	<u>96,108</u>	<u>(38,008)</u>	<u>440,256</u>

<u>Movement in deferred tax during the year</u>	<u>01 Jan 2020</u> <u>SAR</u>	<u>Recognised in</u> <u>Income</u> <u>SAR</u>	<u>Recognised in</u> <u>OCI</u> <u>SAR</u>	<u>31 Dec 2020</u> <u>SAR</u>
Fixed assets	66,549	133,925	-	200,474
Defined benefit pension scheme	176,086	73,095	(67,499)	181,682
	<u>242,635</u>	<u>207,020</u>	<u>(67,499)</u>	<u>382,156</u>

20. Financial risk management

Risk management is the responsibility of the Company's Board of Directors ("the Board"). This is conducted within the overall global risk framework of the Group. Policies and practices are validated and locally approved by the Board and the regional risk organization is structured to provide the Board with the necessary risk reporting and oversight to satisfy its responsibilities.

The Company aims to achieve an appropriate balance between risk and return and to minimize potential adverse effects on the Company's financial performance

Financial assets of the Company comprise of bank balances, amounts due from related parties and certain other assets. Financial liabilities of the Company comprise of amounts due to related parties and employees' end of service benefits. Accounting policies for financial assets and liabilities are set out in note 4.

Credit risk

Credit risk is the risk to interest income or principal from the failure of a borrower or counterparty to perform an obligation. Credit risk mainly arises from the placement of cash with local banks and fee income that may not be received. The counterparties used for investment of surplus cash are highly credit worthy financial institutions and placements are limited to a maximum tenor of 3 months.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.

The key judgments and assumptions adopted by the Company in addressing the requirements of IFRS 9 are discussed below:

Financial assets (including trade and other debtors)

The Company recognises loss allowances for Expected Credit Losses ("ECLs") on the following financial instruments that are not measured at fair value through profit or loss:

- Balances with banks (due from banks);
- Placements with banks (time deposits); and
- Trust and custody fees receivable

Notes to the Financial Statements For the Year Ended 31 December 2021

20. Financial risk management (continued)

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

- Other financial instruments (excepting trust and custody fees receivable) that have not experienced a significant increase in credit risk since initial recognition.

12 month ECLs refer to the portion of ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECLs result from all possible default events over the expected life of a financial instrument.

Credit impaired financial assets

At each reporting date, the Company assesses whether financial assets at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event;
- The Company has granted to the borrower a concession that it would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event and the combined effect of several events may have caused financial assets to become credit-impaired.

Determining significant increases in credit risk

In determining whether an instrument has experienced a significant increase in credit risk, the Company considers reasonable and supportable information available without undue cost or effort. This includes historical experience and forward-looking information.

The Company assigns an internal borrower rating to each of its counterparties which reflects the creditworthiness of the counterparty. Borrower ratings are assigned according to the Credit Policy and account for quantitative and qualitative aspects of the counterparty's financial health. A borrower rating of one is the strongest and of nine is the weakest.

Borrower ratings are assigned at the time an obligor or obligation is approved and are reviewed and updated (if necessary) no less than annually for each counterparty and sooner if material information on a counterparty becomes available. The Company determines a significant increase in credit risk has occurred if a borrower rating that previously fell inside a generally understood definition of high credit quality is updated to fall outside that range.

Debt securities with borrower ratings between one and three (inclusive) are mapped to external agencies investment grade and are determined to have low credit risk (Moody's rating of Baa3 or higher or S&P rating of BBB- or higher). Loans and general custody overdrafts with borrower ratings between one and five (inclusive) are mapped to Federal Deposit Insurance Corporation's loan classification ratings that are not adversely classified and are determined to have low credit risk.

For non-investment grade exposures that do not meet the investment grade low credit risk simplifications, indicators of a significant increase in credit risk may include an increase in a counterparty's borrower rating, whether the exposure is over 30 days past due, or if the counterparty is on the Company's watch list. Quantitative and qualitative criteria include a significant increase in the credit spread; significant adverse changes in the business, financial, or economic conditions in which the obligor operates; actual or expected forbearance or restructuring; significant change in the collateral value which is expected to increase the risk of default; or early signs of cash flow or liquidity issues.

The Company utilizes a separate assessment process under a simplified approach for credit losses related to its trust fee receivables. Under this simplified approach, the Company applies a matrix whereby reserves are calculated based on ratios specific to defined aging buckets. These ratios are developed based on an analysis of historical data and are reviewed and updated to reflect changes in data and collectability of future cash flows with separate forward looking adjustments for individual client circumstances on a case by case basis. There is a rebuttable presumption that exposures that are more than 30 days past due have experienced a significant increase in credit risk, however the Company applies a 0% reserve provision for trust fee receivables outstanding less than 150 days as they historically have never experienced a credit loss, and delays in payment are operational in nature and not due to credit deterioration of clients.

The Company considers a financial asset to be in default when one or more of the following events occur:

- The borrower is unlikely to pay any of its obligations to the Company in full;
- Any of the borrower's obligations is impaired or placed on non-accrual status;
- A credit loss event associated with any obligation occurs (e.g. charge-off, distressed restructuring involving forgiveness or postponement of principal, interest or fees);
- The obligor has filed for bankruptcy or similar protection;
- The obligor is more than 90 days past due on any exposure greater than USD\$1,000 (except trust fee receivables as noted above);
- The obligor's borrower rating is downgraded to eight or nine; and
- A debt obligation or portion thereof is sold for a material discount to carrying value due to credit deterioration (5% or more of the amortised carrying value).

**Notes to the Financial Statements
For the Year Ended 31 December 2021**
20. Financial risk management (continued)
Measuring expected credit losses

The key inputs into the measurement of the ECLs are the PD, loss given default ("LGD"), and exposure at default ("EAD"). PD and LGD vary by the type of exposure, asset class and geography of the financial instruments. PD and LGD are estimated based on historical data from external sources and internal subject matter expertise. These factors are derived by applying quarterly macroeconomic projections using models developed from historical data on macroeconomic factors and financial assets with similar factors. EAD represents the current exposure amount in the case of a default (for financial assets, this is the carrying value of the asset). Subject to using a maximum 12 month PD for financial assets where credit risk has not significantly increased, the Company calculates ECLs considering the risk of default over the maximum contractual period it is exposed to credit risk. The Company determines an asset is credit impaired when factors described above lead to a lowering of the counterparty's borrowing rating to 9 (default levels). These assets are considered credit-impaired and are measured at lifetime ECLs.

Presentation of ECL allowances

Loss allowances on financial assets measured at amortised cost are presented as a deduction from the gross carrying amount of the assets.

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Cash and cash equivalents, net	140,349,416	117,244,820
Due from related parties	4,094,350	66,013
Accrued income and fee receivable, net	33,926,659	30,682,147
Prepayments and other current assets	1,431,662	940,026
	<u>179,802,087</u>	<u>148,933,006</u>

Liquidity risk

Liquidity risk is the risk of not being able to raise sufficient funds or collateral to meet balance sheet and contingent liability cash flow obligations when due, because of firm-specific or market-wide events. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. The Company's liquidity risk is minimal as it does not take on customer deposits or trade as principal; liquidity risk is limited to the management of day to day operating expenses. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are readily available to meet the Company's future commitments.

The below summaries maturities profile of financial liabilities.

December 2021

	<u>Less than one year</u>	<u>More than one year</u>	<u>Total</u>
	<u>SAR</u>	<u>SAR</u>	<u>SAR</u>
Liabilities			
Due to related parties	(484,160)	-	(484,160)
Accrued expenses and other liabilities	(12,055,405)	-	(12,055,405)
Leases	(730,964)	(799,875)	(1,530,839)
Employees' end of service benefit	-	(1,225,583)	(1,225,583)
	<u>(13,270,529)</u>	<u>(2,025,458)</u>	<u>(15,295,987)</u>

December 2020

	<u>Less than one year</u>	<u>More than one year</u>	<u>More than one year</u>
	<u>SAR</u>	<u>SAR</u>	<u>SAR</u>
Liabilities			
Due to related parties	(1,032,632)	-	(1,032,632)
Accrued expenses and other liabilities	(4,465,665)	-	(4,465,665)
Lease liability	(747,283)	(1,523,996)	(2,271,279)
Employees' end of service benefit	-	(908,416)	(908,416)
	<u>(6,245,580)</u>	<u>(2,432,412)</u>	<u>(8,677,992)</u>

Notes to the Financial Statements For the Year Ended 31 December 2021

20. Financial risk management (continued)

Foreign exchange risk

Foreign exchange risk is defined as the potential for movements in foreign exchange to cause changes in the value of financial instruments. The Company's transactions are principally in Saudi Riyals and United States Dollars, other transactions in foreign currencies are not material. Currency risk is managed on regular basis. Company's currency exposures are set out below:

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Saudi Arabia Riyal	168,622,799	144,792,418
United States Dollar	(639,185)	(542,373)
Total	167,983,614	144,250,045

Commission rate risk

Commission risk is the potential for movements in commission rates to cause changes in net interest income and the market value of equity. The Company does not take client deposits so commission rate risk is limited to short term investments of surplus cash in money market deposits. The Company manages its commission rate risk by making short-term bank deposits for a maximum period of three months. The followings provide the contractual re-pricing dates of the short term bank placements.

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Less than 1 months	15,000,000	50,000,000
Less than 3 months	85,000,000	35,000,000
	100,000,000	85,000,000

21. Capital management

The primary capital adequacy objective of the Company is to maintain capital at a level that allows the Company to meet the requirements or expectations of clients, creditors and regulators while providing adequate returns to the parent holding companies. A strong capital position helps the Company withstand unforeseen adverse developments and pursue profitable business opportunities. The utilisation of capital resources, whether via business growth or capital distributions, is evaluated in relation to the Company's capital adequacy objectives, as well as its strategic objectives and risk profile.

The capital adequacy position of the Company is calculated in accordance with the prudential rules and regulations ('Rules') issued by the CMA. The prudential rules and regulations require company to calculate the regulatory capital adequacy position using the Capital Adequacy Model ('CAM') on a monthly basis. The Company monitors the adequacy of its capital using ratios established by the CMA. The Capital adequacy ratio measures capital adequacy by comparing the Company's capital base against the sum of minimum capital requirements for credit, market and operational risk.

The Capital adequacy position of Company as at 31 December was as follows:

Capital base	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Tier 1 Capital	167,097,000	143,731,000
Tier 2 Capital	-	-
Total Capital Base	167,097,000	143,731,000

**Notes to the Financial Statements
For the Year Ended 31 December 2021**
21. Capital management (continued)
Minimum capital requirement

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Market risk	-	3,000
Credit risk	8,885,000	10,507,000
Operational risk	13,062,000	8,884,000
Total minimum capital requirement	<u>21,947,000</u>	<u>19,394,000</u>

Capital adequacy ratio

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Surplus in capital	145,150,000	124,337,000
Total capital ratio (times)	<u>7.61</u>	<u>7.41</u>

Capital Base of the Company comprises of Tier 1 capital that consists of paid-up share capital, statutory reserves and retained earnings. The Company does not have any Tier 2 Capital.

The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in the Rules.

22. Right of use assets, net and lease liabilities

On the commencement date, the Company assesses whether a contract is or contains a lease. If a lease exists, the Company as the lessee will recognise a "right-of-use" ("ROU") asset and a lease liability. The ROU asset is measured at cost which is equal to the amount of the initial measurement of the lease liability plus any lease payments made or incentives received before the commencement date plus any initial direct costs incurred and an estimate of the cost of restoring the asset to the condition required by the lease terms if the obligation for these costs arises on commencement or as a consequence of using the asset.

At commencement date the lease liability is measured at the present value of the lease payments that are not paid at that date. The discount rate used is the Company's incremental borrowing rate. The Company will recognise in the statement of profit or loss the interest expense on the lease liability and the depreciation charge for the ROU asset. The ROU asset is depreciated using the straight-line method from the commencement date. The Company presents ROU assets in "Property and equipment, net" within "Assets" and lease liabilities in "Leases" on the Statement of Financial Position.

The Company leases floor space at the office building at Floor 20, Kingdom Centre Tower, King Fahad Road, Riyadh, Saudi Arabia. The Company entered into the lease agreement on 9 May 2019.

ROU assets, net	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Balance as at 1 January	2,592,647	3,377,917
Additions during the year	-	-
Depreciation charge for the year	(723,530)	(785,270)
Carrying amount of ROU asset as at 31 December	<u>1,869,117</u>	<u>2,592,647</u>

Maturity analysis of lease liabilities

	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>SAR</u>	<u>SAR</u>
Less than 1 year	782,460	782,460
1 to 5 years	782,460	1,564,920
Total undiscounted lease liabilities at 31 December	<u>1,564,920</u>	<u>2,347,380</u>

**Notes to the Financial Statements
For the Year Ended 31 December 2021**
22. Right of use assets, net and lease liabilities (continued)

Maturity analysis of discounted lease liabilities	31 December 2021	31 December 2020
	<u>SAR</u>	<u>SAR</u>
Less than 1 year	730,964	747,283
1 to 5 years	799,875	1,523,996
More than 5 years	-	-
Total discounted lease liabilities at 31 December	1,530,839	2,271,279

Amounts recognised in profit and loss	31 December 2021	31 December 2020
	<u>SAR</u>	<u>SAR</u>
Interest expense	42,021	58,190
Depreciation charge for ROU assets	723,530	785,270
Total amounts recognised in profit and loss at 31 December	765,551	843,460

23. Operational risk management

Operational risk includes compliance and fiduciary risks which are governed and managed separately under Northern Trust's risk management framework.

Operational risk is defined as the risk of loss from inadequate or failed internal processes, human factors and systems or from external events. The objective is to manage operational risk as to balance the avoidance of financial losses and reputational damage with overall cost effectiveness.

24. Fair value 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. As the accompanying financial statements are prepared under the historical cost method, differences may arise between the book values and the fair value estimates.

The fair values of all on-balance sheet financial instruments are not significantly different from the carrying values included in the financial statements. The fixed term bank placements are held with one bank and re-price every quarter and current market commission rates for similar financial instruments are not significantly different from the contracted rates accordingly the fair value approximates the carrying value.

25. Segment reporting

As the Company's business activity primarily falls within a single business and geographical segment, no additional disclosure is provided under segment reporting.

26. Fiduciary accounts

The Company had appointed a related party, The Northern Trust Company London Branch, as global custodian, that held its client's cash, as at 31 December 31 2021 amounting to SAR 478.0 million (31 December 31 2020: SAR 3,404.4 million). Such balances are not included in the Company's financial statements.

27. Comparative figures

Certain prior period figures have been reclassified to conform to current period presentation.

28. Approval of financial statements

The financial statements were approved by the Directors of the Company and signed on their behalf on 23 March 2022 (corresponding to 20-8-1443 H).