

**INVESTCORP SAUDI ARABIA FINANCIAL  
INVESTMENTS COMPANY**

**(A closed joint stock company owned by one person)**

**Financial Statements and Independent Auditor's Report**

**30 June 2021**

Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

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FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
30 June 2021

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## INDEPENDENT AUDITOR'S REPORT

To the Owner of Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

### Opinion

We have audited the financial statements of Investcorp Saudi Arabia Financial Investments Company (A Saudi Joint Stock Company Owned by One Person) (the "Company"), which comprise the statement of financial position as at 30 June 2021, and the statement of comprehensive income, statement of changes in owner's equity and statement of cash flows for the year ended 30 June 2021, 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 30 June 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants.

### Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing 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 professional code of conduct and ethics 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 International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and 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.

## INDEPENDENT AUDITOR'S REPORT

To the Owner of Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person) (continued)

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

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.

### 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 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 the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism 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.

## INDEPENDENT AUDITOR'S REPORT

To the Owner of Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person) (continued)

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

- 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 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.

for Ernst & Young



Fahad M. Al-Toaimi  
Certified Public Accountant  
License No. 354

Riyadh: 19 Safar 1443H  
(26 September 2021)

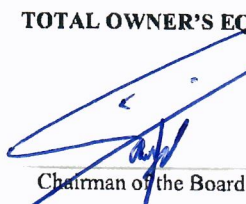


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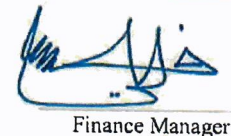
STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	2021 SR	2020 SR
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property and equipment		74,680	-
Right-of-use asset	4	1,755,735	2,810,410
Deferred tax assets	12	32,042	226,215
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,862,457</b>	<b>3,036,625</b>
<b>CURRENT ASSETS</b>			
Amounts due from related parties	5	10,681,000	10,813,058
Prepayments and other receivables	6	734,945	518,882
Cash and cash equivalents	7	59,438,024	56,063,325
<b>TOTAL CURRENT ASSETS</b>		<b>70,853,969</b>	<b>67,395,265</b>
<b>TOTAL ASSETS</b>		<b>72,716,426</b>	<b>70,431,890</b>
<b>OWNER'S EQUITY AND LIABILITIES</b>			
<b>OWNER'S EQUITY</b>			
Share capital	8	55,876,000	55,876,000
Statutory reserve	9	1,120,091	807,550
Actuarial gain on employees' defined benefit liabilities	10	167,722	167,722
Retained earnings		4,207,113	1,394,241
<b>TOTAL OWNER'S EQUITY</b>		<b>61,370,926</b>	<b>58,245,513</b>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	4	-	1,191,000
Employees' defined benefit liabilities	10	1,015,035	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,015,035</b>	<b>1,191,000</b>
<b>CURRENT LIABILITIES</b>			
Accrued expenses and other payables	11	7,419,468	8,257,881
Zakat and income tax	12	1,670,205	1,589,066
Lease liabilities	4	1,240,792	1,148,430
<b>TOTAL CURRENT LIABILITIES</b>		<b>10,330,465</b>	<b>10,995,377</b>
<b>TOTAL LIABILITIES</b>		<b>11,345,500</b>	<b>12,186,377</b>
<b>TOTAL OWNER'S EQUITY AND LIABILITIES</b>		<b>72,716,426</b>	<b>70,431,890</b>

  
Chairman of the Board

  
Chief Executive Officer

  
Finance Manager

The accompanying notes 1 to 18 form an integral part of these financial statements.

Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2021

	Notes	2021 SR	2020 SR
<b>REVENUE</b>			
Placement fees	5	14,687,655	13,422,722
Client relationship maintenance fees	5	10,338,173	7,574,922
Management fees	5	1,076,712	1,079,682
<b>TOTAL REVENUE</b>		<b>26,102,540</b>	<b>22,077,326</b>
<b>EXPENSES</b>			
Employees cost		(14,530,794)	(12,355,056)
Depreciation on right-of-use asset	4	(1,054,675)	(1,052,207)
Other operating expenses	13	(6,225,360)	(7,239,814)
<b>TOTAL EXPENSES</b>		<b>(21,810,829)</b>	<b>(20,647,077)</b>
<b>INCOME FROM MAIN OPERATIONS</b>		<b>4,291,711</b>	<b>1,430,249</b>
Finance income		390,316	1,065,478
Finance charges	4	(37,792)	(73,638)
Other income		21,239	22,139
<b>INCOME BEFORE ZAKAT AND TAX</b>		<b>4,665,474</b>	<b>2,444,228</b>
Zakat	12.1	-	(225,510)
Tax	12.2	(1,540,061)	(1,126,124)
<b>NET INCOME FOR THE YEAR</b>		<b>3,125,413</b>	<b>1,092,594</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>3,125,413</b>	<b>1,092,594</b>

The accompanying notes 1 to 18 form an integral part of these financial statements.

Investcorp Saudi Arabia Financial Investments Company  
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STATEMENT OF CHANGES IN OWNER'S EQUITY

For the year ended 30 June 2021

	Share capital SR	Statutory reserve SR	Retained earnings SR	Actuarial gain on employee defined benefit liabilities SR	Total SR
Balance at 1 July 2019	55,876,000	698,291	2,485,534	167,722	59,227,547
Net income for the year	-	-	1,092,594	-	1,092,594
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	1,092,594	-	1,092,594
Transfer to statutory reserve	-	109,259	(109,259)	-	-
Dividends	-	-	(2,074,628)	-	(2,074,628)
Balance at 30 June 2020	55,876,000	807,550	1,394,241	167,722	58,245,513
Net income for the year	-	-	3,125,413	-	3,125,413
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	3,125,413	-	3,125,413
Transfer to statutory reserve	-	312,541	(312,541)	-	-
<b>Balance at 30 June 2021</b>	<b>55,876,000</b>	<b>1,120,091</b>	<b>4,207,113</b>	<b>167,722</b>	<b>61,370,926</b>

The accompanying notes 1 to 18 form an integral part of these financial statements.



Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

STATEMENT OF CASH FLOWS

For the year ended 30 June 2021

	Notes	2021 SR	2020 SR
<b>OPERATING ACTIVITIES</b>			
Income before zakat and income tax		<b>4,665,474</b>	2,444,228
<i>Adjustments for:</i>			
Depreciation on property and equipment		<b>874</b>	-
Depreciation on right-of-use asset	4	<b>1,054,675</b>	1,052,207
Provision for employees' defined benefit liabilities	10	<b>427,690</b>	372,921
Finance income		<b>(390,316)</b>	(1,065,478)
Finance charges	4	<b>37,792</b>	73,638
		<b>5,796,189</b>	2,877,516
<i>Changes in operating assets and liabilities:</i>			
Amounts due from related parties		<b>882,128</b>	(11,165,456)
Prepayments and other receivables		<b>(216,063)</b>	519,007
Accrued expenses and other payables		<b>(838,413)</b>	2,994,406
Cash from (used in) operations		<b>5,623,841</b>	(4,774,527)
Employees' defined benefit liabilities paid		<b>(162,725)</b>	(372,921)
Finance income received		<b>390,316</b>	1,065,478
Zakat and income tax paid		<b>(1,264,749)</b>	(585,126)
Net cash from (used in) operating activities		<b>4,586,683</b>	(4,667,096)
<b>INVESTING ACTIVITY</b>			
Purchase of property and equipment		<b>(75,554)</b>	-
Cash used in investing activity		<b>(75,554)</b>	-
<b>FINANCING ACTIVITIES</b>			
Dividends paid		-	(2,074,628)
Payment of principal portion of lease liabilities		<b>(1,136,430)</b>	(1,185,919)
Cash used in financing activities		<b>(1,136,430)</b>	(3,260,547)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>3,374,699</b>	(7,927,643)
Cash and cash equivalents at the beginning of the year		<b>56,063,325</b>	63,990,968
<b>Cash and cash equivalents at the end of the year</b>		<b>59,438,024</b>	56,063,325
<i>Non-cash transaction:</i>			
Right of use asset and lease liability		-	3,451,711

The accompanying notes 1 to 18 form an integral part of these financial statements.

# Investcorp Saudi Arabia Financial Investments Company (A Closed Joint Stock Company Owned by One Person)

## NOTES TO THE FINANCIAL STATEMENTS

At 30 June 2021

### 1. CORPORATE INFORMATION AND ACTIVITIES

Investcorp Saudi Arabia Financial Investments Company (the “Company”) is a closed joint stock company owned by one person registered in Riyadh, Saudi Arabia under commercial registration number 1010254275 dated 1 Sha’aban 1429H (corresponding to 3 August 2008) and licensed by the Capital Market Authority (“CMA”) under license number 07088-36 dated 4 Dhul-Qadah 1428H (corresponding to 9 November 2007). The Company was authorized to commence business via letter no 1227/6 dated 12 Rabi Awal 1430H (corresponding to 9 March 2009). The objectives of the Company are to engage in investment management, investment advisory, investment placement arranging and custodial services.

The registered address of the Company is Al Faisaliah Tower, 29th floor, P.O. Box 61992, Riyadh 11575, Kingdom of Saudi Arabia.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of preparation

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

The financial statements have been prepared on the historical cost basis. The financial statements are presented in Saudi Riyals (“SR”), which is the Company’s functional currency.

#### 2.2 Summary of significant accounting policies

The significant accounting policies adopted by the Company in preparing the financial statements are applied consistently as follows:

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle.
- Held primarily for the purpose of trading.
- Expected to be realized within twelve months after the reporting period; or
- Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is classified as current when:

- It is expected to be settled in the normal operating cycle.
- It is held primarily for the purpose of trading.
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

#### *Property and equipment*

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

Office equipment	3 to 6 years
Office furniture and fixtures	5 to 6 years
Computer equipment	6 years
Leasehold improvements	6 years or the term of the lease, whichever the shorter

Investcorp Saudi Arabia Financial Investments Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*2.2 Summary of significant accounting policies (continued)*

*Property and equipment (continued)*

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in profit or loss as the expense is incurred.

An item of property and equipment is derecognized upon disposal or when no future 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 carrying amount of the asset) is included in the profit or loss in the period the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial period end and adjusted prospectively if appropriate.

*Leases*

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Company as a lessee*

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*i) Right-of-use assets*

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

*ii) Lease liabilities*

Lease liabilities include, if applicable, the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payment that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

*iii) Short-term leases and leases of low-value assets*

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Low-value assets are items that do not meet the Company's capitalization threshold and are considered to be insignificant for the statement of financial position of the Company as a whole. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*2.2 Summary of significant accounting policies (continued)*

*Cash and cash equivalents*

Cash and cash equivalents in the statement of financial position comprise cash in hand, bank balances and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

*Financial instruments - initial recognition and subsequent measurement*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*i. Financial assets*

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flows characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Transaction costs relating to financial assets classified at fair value through profit or loss is charged to profit or loss.

In order for a financial asset to be classified and subsequently measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding.

This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include bank balances (including term deposits) and due from related parties.

*Derecognition of financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is primarily derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*2.2 Summary of significant accounting policies (continued)*

*Financial instruments - initial recognition and subsequent measurement (continued)*

*i. Financial assets (continued)*

*Derecognition of financial assets (continued)*

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Impairment of financial assets*

The Company recognizes an allowance for expected credit losses ("ECL") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

*ii Financial liabilities*

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or amortized cost, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of financial liabilities at fair value through profit or loss, net of directly attributable transaction costs. Transaction costs relating to financial liabilities at fair value through profit or loss is charged to profit or loss.

The Company's financial liabilities include trade and other payables.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as described below:

*a) Financial liabilities at amortized cost*

This is the category most relevant to the Company. After initial recognition these are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*2.2 Summary of significant accounting policies (continued)*

*Financial instruments - initial recognition and subsequent measurement (continued)*

*ii Financial liabilities (continued)*

*a) Financial liabilities at amortized cost (continued)*

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in profit or loss.

This category applies to trade and other payables.

*Derecognition of financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

*Offsetting of financial instruments*

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

*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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, 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

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 on a recurring basis, 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.

Investcorp Saudi Arabia Financial Investments Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*2.2 Summary of significant accounting policies (continued)*

*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.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

*Employee benefits*

*Employee defined benefit liabilities*

The Company operates a defined benefit plan, which requires the Company to make contributions to a separately administered fund by the Company. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method with actuarial valuations being carried out at the end of each reporting period by the plan.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognizes the following changes in the net defined benefit obligation in the statement of comprehensive income in the relevant line items:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- Net interest expense or income.

*Short-term employee benefits*

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and air tickets that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service. The liability is recorded at the undiscounted amount of the benefits expected to be paid in exchange for that service.

*Statutory reserve*

In accordance with Saudi Arabian Regulations for Companies and the Company's By-Laws, the Company must set aside 10% of net income in each year until it has built up a reserve equal to 30% of the share capital. This reserve is not available for distribution.

*Zakat and income tax*

The Company is subject to the Regulations of the Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accrual basis and are charged to profit or loss. Zakat charge is computed on the zakat base. Income tax is computed on adjusted net income. Difference, if any, resulting from final assessment are adjusted in the year of their finalization.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*2.2 Summary of significant accounting policies (continued)*

*Deferred tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and an associate when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is 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. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

*Foreign currencies*

Transactions in foreign currencies are initially recorded by the Company at the currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

*Revenue recognition*

The Company recognizes revenue from management fees, placement fees and client relationship maintenance fees. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of service to a customer.

Revenue from placement fees is recognized as a performance obligation satisfied at a point in time upon subscription of the investor to the investment. Revenue relating to client relationship maintenance fees and management fees are recognized as a performance satisfied over a period of time over the related service period.

The Company recognizes a receivable when the services have been performed as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. It is considered highly probable that a significant reversal in the cumulative revenue recognized will not occur given the consistent low levels of returns over previous years.



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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*2.2 Summary of significant accounting policies (continued)*

*Value Added Tax (VAT)*

Revenue, expenses, and assets are recognized at amounts net of value added tax except:

- where VAT incurred on purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or part of the expense items, as applicable.
- where receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

**3. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS**

The preparation of the financial statements requires management to make estimates and assumptions that may affect the reported amount of assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair values. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts.

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

*Judgements*

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

*Determining the lease term of contracts with renewal and termination options – Company as lessee*

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has lease contract that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

*Going concern*

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 a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**4. RIGHT-OF-USE ASSET AND LEASE LIABILITY**

Right-of-use asset consists of rented office premises. The carrying amounts of right-of-use asset recognized and depreciated over the lease term and the movements during the year are as follows:

	2021 SR	2020 SR
At the beginning of the year	<b>2,810,410</b>	3,862,617
Depreciation charge for the year	<b>(1,054,675)</b>	(1,052,207)
At the end of the year	<b>1,755,735</b>	2,810,410

The carrying amount of the lease liability and the movements during the year is as follows:

	2021 SR	2020 SR
At the beginning of the year	<b>2,339,430</b>	3,451,711
Accretion of special commission expense	<b>37,792</b>	73,638
Payments during the year	<b>(1,136,430)</b>	(1,185,919)
At the end of the year	<b>1,240,792</b>	2,339,430
Current portion of the lease liability	<b>1,240,792</b>	1,148,430
Non-current portion of the lease liability	-	1,191,000

**5. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties represent owner, directors and key management personnel of the Company, and entities controlled or significantly influences by such parties.

The transactions with related parties are as follows:

Related party	Nature of transaction	2021 SR	2020 SR
Investcorp Holdings B.S.C.	Expenses paid on behalf of the Company (note 5a)	<b>150,000</b>	150,000
	Expense recharges (note 5b)	<b>6,068,542</b>	4,567,829
	Management fee expense (note 5c)	<b>4,315,495</b>	3,750,250
Investcorp Management Services Limited	Placement fee income (note 5d)	<b>14,687,655</b>	13,422,722
	Client relationship maintenance fee income (note 5d)	<b>10,338,173</b>	7,574,922
	Director's remuneration (note 13)	<b>150,014</b>	206,144
Saudi Care Sector Fund	Management fee income (note 5e)	<b>1,076,712</b>	1,079,682

Investcorp Saudi Arabia Financial Investments Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**5. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

- a) Expenses comprising salaries of seconded employees are incurred by Investcorp Holdings B.S.C and recharged to the Company.
- b) Investcorp Holdings B.S.C. pays on behalf of the Company for employee bonuses and relationship manager's travel expenses. On a quarterly basis, these payables are settled.
- c) Investcorp Holdings B.S.C. shall charge the Company for finance support inclusive of certain services for corporate governance, accounting, office administrative services including HR support and IT support services.
- d) As per the agreement between the Company and Investcorp Management Services Limited ("IMSL"), the latter will pay a fee for any investments arranged and maintained by the Company. The Company has sourced investments in Saudi Arabia with a total value of SR 1,713,441,702 (2020: SR 1,508,349,336) with IMSL during the year.
- e) The Company provides management services to Saudi Care Sector Fund. The Fund will pay the fund manager an annual management fee as follows:
  - During the Investment Period, at an annual rate of 2% calculated on the aggregate subscription amounts.
  - After the Investment Period, at an annual rate of 2% calculated based on carrying value of investments prior to commencement of the semi-annual period to which management fees relates.

The Fund manager has waived its 2% management fee as per the terms of business for the year ended 30 June 2021. Instead, the management fees amounting to SR 1,076,712 (2020: SR 1,079,682) reflected in the statement of comprehensive income was charged by the Fund manager during the year.

The breakdown of amounts due from related parties are as follows:

	2021 SR	2020 SR
Investcorp Holdings B.S.C	<b>7,086,025</b>	8,152,137
Saudi Care Sector Fund	<b>3,594,975</b>	2,518,263
Investcorp Management Service Limited	-	142,658
	<b>10,681,000</b>	10,813,058

The management has conducted a review for allowance for expected credit losses as required under IFRS 9 and based on such assessment, the management believes that there is no need for any significant impairment loss against the carrying value of the amounts due from related parties.

The breakdown of amounts due to a related party is as follows:

	2021 SR	2020 SR
Investcorp Holdings B.S.C (note 11)	<b>6,068,544</b>	6,642,457

**6. PREPAYMENTS AND OTHER RECEIVABLES**

	2021 SR	2020 SR
VAT receivable	<b>541,833</b>	251,424
Security deposit	<b>98,820</b>	98,820
Prepaid expenses	<b>34,597</b>	39,689
Accrued commission income	<b>59,695</b>	128,949
	<b>734,945</b>	518,882

Investcorp Saudi Arabia Financial Investments Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**7. CASH AND CASH EQUIVALENTS**

	2021 SR	2020 SR
Cash on hand	2,314	4,766
Bank balances	1,356,539	795,019
Short-term time deposits	58,079,171	55,263,540
	<u>59,438,024</u>	<u>56,063,325</u>

Short-term time deposits are made for periods of one to three months and earn interest at the respective short-term deposit rates.

The management has conducted a review for allowance for expected credit losses as required under IFRS 9 and based on such assessment, the management believes that there is no need for any significant impairment loss against the carrying value of cash and cash equivalents.

**8. SHARE CAPITAL**

The Company's share capital amounts to SR 55,876,000 divided into 5,587,600 shares (2020: 5,587,600 shares) of SR 10 each. Share capital of the Company is distributed as follows:

	Ownership %		2021 SR	2020 SR
	2021	2020		
Investcorp S.A.	100%	100%	55,876,000	55,876,000
	<u>100%</u>	<u>100%</u>	<u>55,876,000</u>	<u>55,876,000</u>

**9. STATUTORY RESERVE**

As required by Saudi Arabian Companies' Law and the Company's By-Laws, the Company must set aside 10% of its income before zakat and income taxes after deducting losses brought forward in each year until it has built up a reserve equal to 30% of the share capital. This reserve is not available for distribution.

**10. EMPLOYEES' DEFINED BENEFIT LIABILITIES**

In prior year, the Company has entered into an Employment Benefit Trust, Investment Management and Administration Service Agreement with Peget-Brown Trust Company Limited (A Cayman Island trust company) (the "Trustee") through its affiliates whereby, the Company will settle funds in a Trust on an ongoing basis in respect of its statutory and contractual obligations to make payments for its employees for their end of service benefits. These funds will be applied by the Trustee based on the terms agreed.

During the year, the Company has assessed employee end of service benefit liabilities and charged an amount of SR 427,690 (2020: SR 372,921) to the statement of income as service and interest cost.

As of 30 June 2021, balance in relation to employee defined benefit liabilities amounted SR 2,726,885 (30 June 2020: SR 2,461,921) and the plan assets include investment in money market deposits with a fair value of SR 1,711,850 (30 June 2020: 2,461,921). Accordingly, the net defined benefit liability was SR 1,015,035 as at 30 June 2021 (30 June 2020: nil).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**10. EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)**

Movement in employees' defined benefit liabilities during the year is as follows:

	2021 SR	2020 SR
At the beginning of the year	<b>2,461,921</b>	2,461,921
Charge for the year	<b>427,690</b>	372,921
Payments during the year	<b>(162,726)</b>	(372,921)
At the end of the year	<b><u>2,726,885</u></b>	<u>2,461,921</u>

Movement in plan assets during the year is as follows:

	2021 SR	2020 SR
At the beginning of the year	<b>2,461,921</b>	2,461,921
Net movement in plan assets during the year	<b>(750,071)</b>	-
At the end of the year	<b><u>1,711,850</u></b>	<u>2,461,921</u>

**11. ACCRUED EXPENSES AND OTHER PAYABLES**

	2021 SR	2020 SR
Payable to a related party (note 5)	<b>6,068,541</b>	6,642,457
Accrued expenses	<b>1,350,927</b>	1,615,424
	<b><u>7,419,468</u></b>	<u>8,257,881</u>

**12. ZAKAT AND INCOME TAX**

*12.1 Zakat*

The Zakat charge for the year consists of the following:

	2021 SR	2020 SR
Provision for the year	<b>-</b>	225,510

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**12. ZAKAT AND INCOME TAX (continued)**

*12.1 Zakat (continued)*

The provision for the year is based on the following:

	2021 SR	2020 SR
Equity	-	8,275,950
Opening provisions and other adjustments	-	332,147
Book value of long term assets	-	(399,016)
	-	8,209,081
Income subject to Zakat for the year	-	556,237
Zakat base	-	8,765,318

The differences between the financial and results subject to Zakat are mainly due to provisions which are not allowed in the calculation of income subject to Zakat.

Movements in the zakat provision were as follows:

	2021 SR	2020 SR
At the beginning of the year	247,467	279,776
Charge for the year	-	225,510
Payments during the year	(13,867)	(257,819)
At the end of the year	233,600	247,467

There is no Zakat charge for the year ended 30 June 2021, since the Company is a wholly owned by a non-Saudi owner, which is subject to income tax. The Zakat provision as at the reporting date is held on account of the assessments for prior years.

*12.2 Income tax*

The income tax charge for the year consists of the following:

	2021 SR	2020 SR
Provision for the year	1,345,888	764,556
Deferred tax expense (note 12.4)	194,173	361,568
	1,540,061	1,126,124

Movements in the income tax provision were as follows:

	2021 SR	2020 SR
At the beginning of the year	1,341,599	904,350
Charge for the year	1,345,888	764,556
Payments during the year	(1,250,882)	(327,307)
At the end of the year	1,436,605	1,341,599

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**12. ZAKAT AND INCOME TAX (continued)**

*12.3 Status of assessments*

The Company had settled the tax/zakat assessments for the years 2009 through 2014 with ZATCA. The Company had filed its zakat and income tax returns for the years ended 30 June 2015 through 2020. The assessments has not been raised by ZATCA.

*12.4 Deferred tax*

Movements in the deferred tax were as follows:

	2021 SR	2020 SR
At the beginning of the year	<b>226,215</b>	587,783
Change during the year recognized in profit or loss (note 12.2)	<b>(194,173)</b>	(361,568)
At the end of the year	<b>32,042</b>	226,215

The components of deferred taxes are summarized as follows:

	2021 SR	2020 SR
Accelerated depreciation for accounting purposes	<b>32,042</b>	226,215
	<b>32,042</b>	226,215

**13. OTHER OPERATING EXPENSES**

	2021 SR	2020 SR
Management fee (note 5)	<b>4,315,495</b>	3,750,250
Withholding tax	<b>675,268</b>	1,100,621
Professional fees	<b>315,548</b>	435,393
Communication expenses	<b>225,279</b>	199,678
Government fees	<b>159,543</b>	192,182
Directors' remuneration (note 5)	<b>150,014</b>	206,144
Travel & business development	<b>119,487</b>	1,066,193
Maintenance and utilities expense	<b>114,017</b>	119,805
Others	<b>150,709</b>	169,548
	<b>6,225,360</b>	7,239,814

**14. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents and due from related parties. Financial liabilities consists of payable to a shareholder. The fair values of the financial instruments of the Company as at the reporting date are not materially different from their carrying values. These are all classified within level 2 of the fair value hierarchy.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**15. RISK MANAGEMENT**

The Company is exposed to the following risks. The Company's senior management oversees the management of these risks.

*Foreign exchange risk*

Foreign currency risk is the risk that the fair value or cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The functional and presentation currency of the Company is Saudi Riyals. The Company is not exposed to any significant currency risk as most of its transactions are denominated in either Saudi Riyals or US Dollars and both the currencies are currently on a fixed parity to each other.

*Credit risk*

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from cash equivalents and due from related parties.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

With respect to credit risk arising from the financial assets of the Company, including bank balances, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as disclosed in the table below.

	2021 SR	2020 SR
Bank balances (note 7)	<b>1,356,539</b>	795,019
Short-term time deposits (note 7)	<b>58,079,171</b>	55,263,540
Amounts due from related parties (note 5)	<b>10,047,298</b>	10,813,058
	<b>69,483,008</b>	66,871,617

*Bank balances and short-term time deposits*

Credit risk from balances with banks is managed by the management in accordance with the Company's policy. Counterparty credit limits are reviewed and updated throughout the year.

*Amounts due from related parties*

These balances include receivables from related parties. Based on past experience of the Company, balances with related parties are being settled regularly and there is no history of significant write-off of receivables from related parties.

*Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company is not exposed to significant liquidity risk. Deposits are generally placed for a period of one to three months to manage the Company's liquidity requirements. All liabilities on the Company's statement of financial position, other than employees' defined benefit liabilities, are contractually payable on a current basis.

*Capital management*

The Company manages its capital to ensure it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the equity balance. The Company's overall strategy remains unchanged from the previous year. The capital structure of the Company consists of equity comprising share capital, statutory reserve, actuarial gain on employee defined benefit liabilities and retained earnings.



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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**16. CAPITAL REGULATORY REQUIREMENTS AND CAPITAL ADEQUACY RATIO**

The Capital Market Authority (CMA) has issued Prudential Regulations (the “Rules”) dated 30 December 2012 (corresponding to 17 Safar 1434H). 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 Pillar I. In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

	2021 SR	2020 SR
<i>Capital base:</i>		
Tier 1 capital	<b>61,338,884</b>	58,019,298
Total capital base	<b>61,338,884</b>	58,019,298
<i>Minimum capital requirement:</i>		
Credit risk	<b>5,732,343</b>	5,995,731
Operational risk	<b>5,452,707</b>	5,161,769
Total minimum capital required	<b>11,185,050</b>	11,157,500
<i>Capital adequacy ratio:</i>		
Total capital ratio (times)	<b>5.48</b>	5.20
Tier 1 capital ratio (times)	<b>5.48</b>	5.20
Surplus in the capital	<b>50,153,834</b>	46,861,798

- The capital base of the Company is comprised of:  
Tier 1 - capital comprises paid up share capital, reserves and retained earnings less deferred tax assets.
- The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in Part 3 of the Rules issued by the CMA.
- 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.

**17. IMPACT OF COVID-19**

During March 2020, the World Health Organisation (“WHO”) declared the Coronavirus (“COVID-19”) outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including KSA. Governments all over the world took steps to contain the spread of virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdown and curfews.

In response to the rapid spread of the virus and the resulting disruption of some social and economic activities and business continuity, the management has taken a series of preventive and precautionary measures, including activating of remote work to ensure the safety of its employees and their families.

As of the date of preparation of the financial statements for the year ended 30 June 2021, the management has not identified any significant impact on Company’s operations and financial results from the COVID-19 outbreak. These developments could impact our future financial results, cashflows and financial condition and the management will continue to assess the nature and extent of the impact on its business and financial results.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2021

**18. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors of the Company on 14 Safar 1443H (corresponding to 21 September 2021).