

**FAB CAPITAL FINANCIAL
COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
31 December 2020
together with the
INDEPENDENT AUDITOR'S REPORT**

FAB CAPITAL FINANCIAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

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KPMG Professional Services

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Headquarters

Commercial Registration No. 1010425494

كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

Independent auditor's report

To the shareholder of FAB Capital Financial Company

Opinion

We have audited the financial statements of FAB Capital Financial Company ("the Company"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies, 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.

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

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

Auditor's responsibilities for the audit of the financial statements

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

Independent auditor's report

To the shareholder of FAB Capital Financial Company (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

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

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

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

KPMG Professional Services

Dr. Abdullah Hamad Al Fozan
License no: 348

Riyadh: 18 Sha'ban 1442H
Corresponding to: 31 March 2021



FAB CAPITAL FINANCIAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(Amounts in Saudi Arabian Riyals)

	<i>Note</i>	<u>2020</u>	<u>2019</u>
ASSETS			
Cash and cash equivalents	4	99,338,216	76,598,108
Accounts receivable	5	--	4,230,119
Prepayments, deposits and other receivables	6	530,153	119,299
Right-of-use asset	7	1,838,156	2,231,579
Deferred tax assets	15	12,769	40,871
Property and equipment, net	8	51,515	73,915
Total assets		<u>101,770,809</u>	<u>83,293,891</u>
LIABILITIES			
Advances for capital injection	10 a	--	65,000,000
Due to related party	10	14,462,233	7,383,321
Accrued expenses and other liabilities	11	2,247,515	2,242,371
Lease liability	12	1,543,787	1,903,492
Provision for Zakat and income tax	15	2,185,145	177,724
Provision for end of service benefits		304,428	183,215
Total liabilities		<u>20,743,108</u>	<u>76,890,123</u>
Shareholder's equity			
Share capital	13	52,500,000	2,500,000
Share premium		15,000,000	--
Statutory reserves		1,078,695	106,332
Other reserves		(99,700)	--
Retained earnings		12,548,706	3,797,436
Total equity		<u>81,027,701</u>	<u>6,403,768</u>
Total liabilities and equity		<u>101,770,809</u>	<u>83,293,891</u>

The accompanying notes 1 to 22 form an integral part of these financial statements.


31-MAR-2021

Rayed Al Khulitet
Head of Finance


Mona Al Tawil
Chief Executive Officer



FAB CAPITAL FINANCIAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

	<i>Note</i>	For the year ended 31 December 2020	For the year ended 31 December 2019
Revenue			
Income from arranging activities		19,706,624	8,531,120
Special commission income		201,600	--
Total operating income		19,908,224	8,531,120
Expenses			
Salaries and employee-related expenses		(5,521,743)	(5,751,599)
Depreciation		(401,471)	(413,890)
Finance cost on lease liability		(47,920)	(56,892)
Other general and administrative expenses	<i>14</i>	(2,002,771)	(1,108,565)
Allowance for expected credit losses on financial assets		(58,417)	--
Total operating expenses		(8,032,322)	(7,330,946)
Net income before Zakat and income tax		11,875,902	1,200,174
Zakat and income tax expense– current	<i>15</i>	(2,124,167)	(177,724)
Income tax expense – deferred	<i>15</i>	(28,102)	40,871
Net income for the year		9,723,633	1,063,321
Remeasurement loss for provision for end of service benefits		(99,700)	--
Total comprehensive income for the year		9,623,933	1,063,321

The accompanying notes 1 to 22 form an integral part of these financial statements.

FAB CAPITAL FINANCIAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

	Share capital	Share premium	Statutory reserves	Other reserves	Retained earnings	Total equity
Balance at 1 January 2020	2,500,000	--	106,332	--	3,797,436	6,403,768
Capital injection during the year	50,000,000	15,000,000	--	--	--	65,000,000
Net income for the year	--	--	--	--	9,723,633	9,723,633
Re-measurement loss on defined benefit liability	--	--	--	(99,700)	--	(99,700)
Total comprehensive income for the year	--	--	--	(99,700)	9,723,633	9,623,933
Transfer to statutory reserve	--	--	972,363	--	(972,363)	--
Balance at 31 December 2020	<u>52,500,000</u>	<u>15,000,000</u>	<u>1,078,695</u>	<u>(99,700)</u>	<u>12,548,706</u>	<u>81,027,701</u>

	Share capital	Share premium	Statutory reserves	Other reserves	Retained earnings	Total equity
Balance at 1 January 2019	2,500,000	--	--	--	--	2,500,000
Total comprehensive income for the year	--	--	--	--	1,063,321	1,063,321
Subordinated loan portion waived to absorb losses (note 9)	--	--	--	--	2,840,447	2,840,447
Transfer to statutory reserve	--	--	106,332	--	(106,332)	--
Balance at 31 December 2019	<u>2,500,000</u>	<u>--</u>	<u>106,332</u>	<u>--</u>	<u>3,797,436</u>	<u>6,403,768</u>

The accompanying notes 1 to 22 form an integral part of these financial statements.


31-Mar-2021

Rayed Al Khulitet
Head of Finance





Mona Al Tawil
Chief Executive Officer

FAB CAPITAL FINANCIAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

	<i>Note</i>	For the year ended 31 December 2020	For the year ended 31 December 2019
Cash flows from operating activities			
Net income for the year before tax		11,875,902	1,200,174
Adjustments for non-cash items			
Charge for employee benefits		121,212	155,316
Depreciation charge for the year	7, 8	401,471	413,890
Other non-cash items		16,330	
Interest expense on lease liability		47,920	56,892
Provision for ECL		58,417	--
Changes in operating assets and liabilities:			
Decrease / (increase) in accounts receivable		4,230,119	(4,230,119)
(Increase) / decrease in prepayment, deposits and other receivables		(481,848)	13,341
Increase in advances for capital injection		--	65,000,000
Increase in due to related parties		7,078,912	4,947,016
Increase in accrued expenses and other liabilities		5,144	1,950,985
		<u>23,353,579</u>	<u>69,507,495</u>
Zakat and income tax paid	15	(116,746)	--
		<u>23,236,833</u>	<u>69,507,495</u>
Cash flow from financing activity			
Payment of lease liability		(438,308)	(409,177)
Net cash used in financing activity		<u>(438,308)</u>	<u>(409,177)</u>
Net change in cash and cash equivalents during the year			
Cash and cash equivalents at beginning of the year		22,798,525	69,098,318
		<u>76,598,108</u>	<u>7,499,790</u>
Cash and cash equivalents at end of the year	4	<u>99,396,633</u>	<u>76,598,108</u>

The accompanying notes 1 to 22 form an integral part of these financial statements.


31-Mar-2021

Rayed Al Khulitet
Head of Finance


Mona Al Tawil
Chief Executive Officer



FAB CAPITAL FINANCIAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

(Amounts in Saudi Arabian Riyals)

1. GENERAL INFORMATION

FAB Capital Financial Company (the “Company”) is a Closed Joint Stock Company incorporated in Saudi Arabia under commercial registration No. 1010448608 dated 20 Shaban 1439 (corresponding to 6 May 2018). The Company operates under Saudi Arabia General Investment Authority License No. 10211390781969 dated 5 Rajab 1439 (corresponding to 22 March 2018) and Capital Market Authority (“CMA”) License No. 18188-30 dated 19 Jumada al-Ula 1439 (corresponding to 5 February 2018). During the year, the legal structure of the company changed from a Limited Liability Company to a Closed Joint Stock Company (CJSC).

The registered address of the Company, which is also its principal place of business, is at 3rd Floor, Cayan Tower, AlMalqa – King Fahad Road, P.O. Box 272, Riyadh 11411, Kingdom of Saudi Arabia.

The principal activities of the Company are dealing as underwriter, advisory & arranging securities and Custody Services. The company has amended its business activity by adding new licenses to practice the dealing activities as underwriter and custody in securities business in reference to the CMA’s approval no. S/1/6/541 1/20 dated 21 Safar 1442 (corresponding to 08 Oct 2020).

The company name was changed to FAB Capital Financial Company from the previous name FAB Investment Company Saudi Arabia. The approval was granted by CMA on 08 Jumada al-Ula 1440 (corresponding to 14 Jan 2019) upon which the Company completed legal formalities pertaining to company registration and amending of by-laws under the new name in 2020. The Company is a subsidiary of First Abu Dhabi Bank PJSC (the “Parent Company”).

2. BASIS OF PREPARATION

a) *Statement of compliance*

The financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”) and in compliance with the applicable requirements of the Regulation for Companies in the Kingdom of Saudi Arabia and the Company’s By-laws.

b) *Basis of measurement*

These financial statements have been prepared under the historical cost convention except for fair value of investments held at fair value through profit or loss. Furthermore, the employees’ benefit obligation is measured at present value of defined benefit obligation. The Company does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity.

c) *Functional and presentation currency*

These financial statements are presented in Saudi Arabian Riyals (SAR), which is also the functional currency of the Company.

d) *Critical accounting judgments and estimates*

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

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

FAB CAPITAL FINANCIAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

(Amounts in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (CONTINUED)

Useful lives of property and equipment

The management reviews the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use, and are revised if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence. It is possible that future results of operations could be materially affected by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment would increase the recorded depreciation expense and decrease non-current assets.

e) *Standards issued but not yet effective*

The following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2021 and earlier application is permitted however, the Company has not early adopted them in preparing these financial statements. These new standards are not expected to have a significant impact on the financial statements of the Company.

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- Annual Improvements to IFRS Standards 2018-2020
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Classification of liabilities as current or non-current (Amendments to IAS 1)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have consistently applied to all periods presented unless otherwise stated.

3.1 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the purchase date.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

3.2 *Financial Instruments*

Classification and measurement of financial assets

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

- Amortized cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through statement of profit or loss (FVTP)

Financial Asset at amortized cost

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

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

FAB CAPITAL FINANCIAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

(Amounts in Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification and measurement of financial assets (continued)

Financial Asset at fair value through other comprehensive income ("FVOCI")

A financial asset is measured at fair value through FVOCI only if it meets both of the following conditions and is not designated as at FVTPL.

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

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

Financial Asset at fair value through profit or loss ("FVTPL")

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

Business model assessment

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly purchased financial assets going forward.

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

Assessment whether contractual cash flows are solely payments of principal and commission

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

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

FAB CAPITAL FINANCIAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

(Amounts in Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification and measurement of financial assets (continued)

Reclassifications

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

Impairment of financial assets

The financial assets of the Company that are subjected to expected credit losses (“ECL”) review include cash at bank and accounts receivable.

A significant exposure of the Company is held as deposits with First Abu Dhabi Bank – Saudi Arabia Branch, which is a Branch of Parent (First Abu Dhabi Bank). The Bank has a sound credit rating as at the reporting date and therefore the Company considers that it has low credit risk. No decline is seen in the credit rating until the reporting date. The loss given default “LGD” is low and impact on expected loss is not considered significant to the financial statements.

The Company considers that the remaining financial assets are immaterial and therefore have mostly low credit risk and the impact of expected credit loss is not considered significant.

Financial liabilities

All financial liabilities are initially recognized at fair value less transaction costs except for financial liabilities measured at FVTPL where transaction costs, if any, are not deducted from the fair value measurement at initial recognition, and are included in the statement of income.

Subsequently, all special commission bearing financial liabilities other than those held at FVTPL are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement.

De-recognition of financial instruments

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition. In instances where the Company is assessed to have transferred a financial asset, the asset is derecognized if the Company has transferred substantially all the risks and rewards of ownership. Where the Company has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Company has not retained control of the financial asset. The Company recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

Offsetting of financial instruments

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

FAB CAPITAL FINANCIAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

(Amounts in Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Revenue from contracts with customers

The Company recognises revenue as and when the performance obligations are met. The Company has the following streams of revenue:

Revenue from arranging activities

Revenue from arranging activities is recognised based on services rendered under the applicable service contracts using the five-step approach to revenue recognition.

3.4 Property and equipment and leases

Property and equipment are stated at cost, net of 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:

	<u>No of years</u>
Computer equipment	3-5

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

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

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

Right-of-use asset / lease liability

On initial recognition, at inception of the contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

Right of use assets

The Company applies cost model, and measures right of use asset at cost:

- a. less any accumulated depreciation and any accumulated impairment losses; and
- b. adjusted for any re-measurement of the lease liability for lease modifications.

Lease liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor. Subsequent to the commencement date, the Company measures the lease liability by:

- a) Increasing the carrying amount to reflect interest on the lease liability;
- b) Reducing the carrying amount to reflect the lease payments made; and
- c) Re-measuring the carrying amount to reflect any re-assessment or lease modification.

FAB CAPITAL FINANCIAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

(Amounts in Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 *Impairment of non-financial assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGUs) fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

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

3.6 *Accrued expenses and other liabilities*

Accrued expenses and other liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

3.7 *Taxation*

Current Tax

Income tax is provided in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia and charged to the statement of profit and loss.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made.

Deferred Tax

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the carrying amount of the assets and liabilities and their tax bases. Deferred tax assets are recognised for all major 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. Deferred tax assets and liabilities are measured at the tax rates that have been enacted or substantially enacted at the balance sheet date.

FAB CAPITAL FINANCIAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

(Amounts in Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 *Employees' end of service benefits*

The Company operates a single post-employment benefit scheme of defined benefit plan driven by the labor laws and workman laws of the Kingdom of Saudi Arabia which is based on most recent salary and number of service years.

The post-employment benefits plan is not funded. Accordingly, valuations of the obligations under the plan are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognized immediately in the statement of profit or loss, while unwinding of the liability at discount rates used are recorded in profit or loss. Any changes in net liability due to valuations and changes in assumptions are taken as re-measurement in the other comprehensive income.

3.9 *Expenses*

All expenses are recognized in statement of profit or loss as the related services are received.

3.10 *Foreign currencies*

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

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

3.11 *Contingent assets and liabilities*

A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of obligations cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where an inflow of economic benefits is probable.

3.12 *Statutory reserve*

In accordance with the Company's Articles of Association and the Saudi Arabian Regulations for Companies which came into effect on 25 Rajab 1437H (corresponding to 2 May 2016), the Company sets aside 10% of its net income each year as statutory reserve until such reserve equals to 30% of the share capital. As at 31 December 2020, the Company has set SAR 0.97 million as statutory reserve.

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4. CASH AND CASH EQUIVALENTS

	<i>Note</i>	<u>2020</u>	<u>2019</u>
Current accounts		39,396,633	76,598,108
Fixed deposit	4.1	60,000,000	--
Provision for expected credit losses		(58,417)	--
		<u>99,338,216</u>	<u>76,598,108</u>

- 4.1** Fixed deposits amounting to SAR 60 million with a maturity of three months is considered as cash and cash equivalents (31 December 2019 : Nil).

5. ACCOUNTS RECEIVABLE

	<u>2020</u>	<u>2019</u>
Accounts receivable	--	4,230,119

This represented portion of the revenue from arranging activities not yet collected by the Company from First Abu Dhabi Bank PSJC (“the Parent”).

6. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<u>2020</u>	<u>2019</u>
Prepaid recruitment allowance	156,250	--
Interest receivable	110,400	--
Prepaid advance against salary	200,000	63,333
Others	63,503	55,966
Total	530,153	119,298

7. RIGHT OF USE ASSET

	<u>2020</u>	<u>2019</u>
Cost:		
Balance at the beginning of the year	2,613,807	--
Other adjustments (7.1)	(14,353)	
Additions/ re-measurement	--	--
Disposals	--	--
Balance at the end of the year	2,599,454	2,613,807
Accumulated depreciation:		
Balance at the beginning of the year	(382,228)	--
Charge for the year	(379,070)	(382,228)
Disposals	--	--
Balance at the end of the year	(761,298)	(382,228)
Net book value as at the end of the year	1,838,156	2,231,579

- 7.1** Right of use assets represents the sub-leased portion of the main lease agreement as occupied by the Company. During 2020, management has performed an exercise to measure the space use from the main lease and determined that a lesser space is used than what was determined at the inception of the lease, hence a reduction in right of use assets has been recognised.

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8. PROPERTY AND EQUIPMENT, NET

	Computer equipment	Capital work in progress	Total
Cost:			
Balance at 1 January 2020	107,544	--	107,544
Additions during the year	--	--	--
Balance at 31 December 2020	<u>107,544</u>	<u>--</u>	<u>107,544</u>
Accumulated depreciation:			
Balance at 1 January 2020	(33,628)	--	(33,628)
Charge for the year	(22,401)	--	(22,401)
Balance at 31 December 2020	<u>(56,029)</u>	<u>--</u>	<u>(56,029)</u>
Net book value as at 31 December 2020	<u>51,515</u>	<u>--</u>	<u>51,515</u>

	Computer Equipment	Capital work in progress	Total
Cost:			
Balance at 1 January 2019	36,558	70,986	107,544
Additions	--	--	--
Transfer	70,986	(70,986)	--
Balance at 31 December 2019	<u>107,544</u>	<u>--</u>	<u>107,544</u>
Accumulated depreciation:			
Balance at 1 January 2019	(1,966)	--	(1,966)
Charge for the year	(31,662)	--	(31,662)
Balance at 31 December 2019	<u>(33,628)</u>	<u>--</u>	<u>(33,628)</u>
Net book value as at 31 December 2019	<u>73,916</u>	<u>--</u>	<u>73,915</u>

9. SUBORDINATED LOAN

During 2018, the Company obtained a loan of SAR 5 million from the Parent Company. According to the terms and conditions of the agreement, the loan shall be set off periodically against operational losses to preserve shareholder equity of the entity, compliant with Article 181 of Saudi Companies Law and Article 1 (c) of the CMA Prudential Rules. The written-off portion of the loan shall not be converted back into a loan.

In 2018, the Company offset the net loss for the year against the loan amounting to SAR 2.16 million. In June 2019, the Company offset the remaining balance of the loan amounting to SAR 2.84 million against the loss incurred during the first half of 2019.

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10. TRANSACTIONS WITH RELATED PARTIES

The related parties of the Company include the Parent Company and its affiliated entities and certain key management personnel. In the ordinary course of activities, the Company transacts business with its related parties on mutually agreed terms. Key management personnel include the Chief Executive Officer, Head of Compliance and Head of Finance.

The significant related party transactions entered into by the Company during the year are as follows:

<u>Related party</u>	<u>Nature of transaction</u>	<u>2020</u>	<u>2019</u>
First Abu Dhabi Bank P.J.S.C.	Payments made on behalf of the entity for Company's expenditure	421,217	4,179,953
	Cash deposited for capital injection (note a)	--	65,000,000
First Abu Dhabi Branch KSA	Payments made on behalf of the entity for Company's expenditure	6,657,695	767,063
	Commissions paid on financial guarantees	127,778	--
Key management personnel	Basic salary	2,491,320	1,994,200
	Allowances	1,916,296	1,420,207
	GOSI – Employer's contribution	180,792	185,587
	Bonus	516,350	528,350
	Directors' fees	400,000	400,000

The balances as of 31 December 2020 resulting from transactions with related parties are as follows:

<u>Related party</u>	<u>Note</u>	<u>2020</u>	<u>2019</u>
First Abu Dhabi Bank P.J.S.C.			
Accounts receivable	5	--	4,230,119
Advances for capital injection		--	65,000,000
Due to related parties		6,627,873	7,383,321
First Abu Dhabi Branch KSA			
Due to related parties		7,834,360	--
Financial guarantee issued to facilitate custody license		50,000,000	--

- a. On 31 July 2019, the Parent Company approved the Company's request for a capital injection amounting to SAR 65 million, and this was credited to the Company's bank account on 26 August 2019. The capital injection was required to support the Company's application for a custody and securities dealing license to the CMA. During the year, the Company received approvals from the Ministry of Commerce and Investment and CMA for the increase in capital stock and conversion of corporate legal status from limited liability to joint stock company. Accordingly, the shares were issued during 2020. For the year ended 31 December 2019, the amount was maintained as an advance, as the Company was waiting for the necessary approvals. .

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11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>2020</u>	<u>2019</u>
Accrued directors' fees	400,000	400,000
Accrued professional fees	763,096	281,415
Accrued employee related benefits	981,386	1,560,956
Deferred income	46,800	--
Others	56,233	--
	<u>2,247,515</u>	<u>2,242,371</u>

12. LEASE LIABILITY

The Company's finance lease liability is payable as follows:

	<u>Future minimum lease payment</u>	<u>Interest</u>	<u>Present value of minimum lease payment</u>
Less than one year	409,602	(38,378)	371,224
Between one and five years	1,228,805	(56,242)	1,172,563
More than five years	--	--	--
Total	<u>1,638,407</u>	<u>(94,620)</u>	<u>1,543,787</u>

13. SHARE CAPITAL

As of 31 December 2020, the share capital of the Company is SAR 52,500,000 divided into 5,250,000 fully paid shares of SAR 10 each and are 100% owned by First Abu Dhabi Bank P.J.S.C. As of 31 December 2019, the share capital of the Company was SAR 2,500,000 divided into 2,500 fully paid shares of SAR 1,000 each and were 100% owned by First Abu Dhabi Bank P.J.S.C.

During 2020, a capital injection of SAR 65,000,000 was made of which SAR 15,000,000 was attributed to share premium.

14. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	<i>Note</i>	For the year ended 31 December 2020	For the year ended 31 December 2019
Directors' fees		400,000	400,000
Professional fees		743,973	229,425
License fees		178,777	129,270
Head office allocated costs including utilities		374,207	336,793
Guarantee commission	10	127,778	--
Licensing fee for custody and dealing		77,813	--
Others		100,223	13,078
		<u>2,002,771</u>	<u>1,108,565</u>

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15. ZAKAT AND INCOME TAX

The Company is subject to Zakat and income tax in accordance with the Regulations of GAZT.

The amounts of Zakat and income tax charges are as follows:

	For the year ended 31 December <u>2020</u>	For the year ended 31 December <u>2019</u>
Zakat charge for the year	1,792,211	145,237
Income tax for the year	331,956	32,488
Deferred tax expense/(credit) for the year	<u>28,102</u>	<u>(40,871)</u>
	<u><u>2,152,269</u></u>	<u><u>136,853</u></u>

The below table represents the movement in provision for Zakat and income tax:

	<u>2020</u>	<u>2019</u>
Opening Zakat and income tax liability	177,724	--
Charge for the year	2,124,167	177,724
Payments during the year	<u>(116,746)</u>	<u>--</u>
	<u><u>2,185,145</u></u>	<u><u>177,724</u></u>

The following table shows the movement in deferred tax:

	<u>2020</u>	<u>2019</u>
Opening deferred tax asset	40,871	--
Charge for the year	<u>(28,102)</u>	<u>40,871</u>
Ending deferred tax asset	<u><u>12,769</u></u>	<u><u>40,871</u></u>

The Company has filed its Zakat and tax returns for the year ended 31 December 2019 which are yet to be assessed by the General Authority of Zakat and Tax ("GAZT").

16. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

- Level 1 - Quoted (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.

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16. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

As at 31 December 2020, the Company's financial instruments comprise of bank balances, interest receivable, due to related parties, finance lease liabilities, accrued and other liabilities, which are measured at amortised cost and their carrying amount is a reasonable approximation of their fair values because these financial instruments are of shorter duration.

17. FINANCIAL RISK MANAGEMENT

The Company maintains positions in financial instruments in accordance with its management strategy. The Company's financial position consists of current account balances, due to related party, accrued and other liabilities.

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

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge its contractual obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk on the following:

	<u>2020</u>	<u>2019</u>
Cash at banks	99,396,633	76,598,108
Accounts receivable	--	4,230,119
Prepayments, deposits and other receivables	110,400	--
	99,507,033	80,828,227

Cash at banks

The current accounts are held with Riyadh Bank amounting to SAR 34.26 million and SAR 65.14 million in First Abu Dhabi Bank – Saudi Arabia Branch. The current accounts are held with banks having reputable standing and investment grade credit ratings within the Kingdom of Saudi Arabia.

Accounts receivable

The Company's accounts receivable is due from the Parent Company. There are no accounts receivable as at 31 December 2020.

Prepayments and deposits

The Company's interest receivable is due from the First Abu Dhabi KSA branch.

All the assets and liabilities are concentrated in the Kingdom of Saudi Arabia.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. As of 31 December 2020, the financial assets

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17. FINANCIAL RISK MANAGEMENT (CONTINUED)

of the Company comprised of cash at banks and interest receivable from Parent Company, while the financial liabilities of the Company comprised of due to related party, accrued expenses and other liabilities. All other financial liabilities on the Company's statement of financial position are contractually payable on a current basis. The Company manages its liquidity risk by maintaining adequate liquid assets.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

a. Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and United Arab Emirates Dirhams. Management monitors the exposures and fluctuations in foreign exchange rates and believes that the foreign exchange risk is not significant.

b. Commission rate risk

Commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company's financial position and cash flows. The Company on a regular basis monitors changes in the commission rates.

There are no exposures as at 31 December 2020 to variable rate instruments. Hence, no exposure to commission rate risk.

c. Price risk

Price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company is not exposed to price risk the Company does not hold any financial instruments that are traded in the market as at 31 December 2020 and 2019.

d. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Management maintains a strong governance and developed control framework to mitigate such risk.

18. COVID - 19

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalization.

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18. COVID – 19 (CONTINUED)

The Company's operations have been resilient during the pandemic year and the Company was able to offer uninterrupted services to its clients and in maintaining day-to-day business operations. The management believes that the Company's liquidity and capital position will continue to remain strong and are well positioned to deal with any disruptions and uncertainties in the future. The management is closely assessing the ongoing situation and any potential impact it could have on its financial performance in 2021, and is taking necessary steps to deal with the challenges.

19. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY

The Capital Market Authority (the "CMA") has issued Prudential Rules ("the Rules") dated 31 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 these Rules. In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

	SAR
	2020
Capital Base	
Tier 1 Capital	81,015
Tier 2 Capital	--
Total Capital Base	81,015
Minimum Capital Requirement	
Credit Risk	6,195
Market Risk	--
Operation Risk	2,133
Total Minimum Capital Required	8,328
Capital Adequacy Ratio	
Tier 1 Capital Ratio (times)	9.73
Surplus in Capital	72,687

- a) Tier 1 capital consists of paid-up share capital, accumulated profits, share premium, and reserves excluding revaluation reserves, with certain deductions as per the Rules.
- b) The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in Part 3 of the Prudential Rules issued by the CMA.
- c) The operating model of the Company has changed in 2020 given the new licenses obtained for custody and dealing business, hence differing capital requirements are applicable for the year 2020 as compared to the prior year. Accordingly, comparative figures are not presented.

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20. COMPARATIVE FIGURES

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

21. SUBSEQUENT EVENTS

There are no material events subsequent to the reporting date that requires adjustment or disclosure in these financial statements.

22. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Chief Executive Officer as delegated by the Board of Directors 31 March 2021 (corresponding to 18 Sha'ban 1442H).