



The Northern Trust Company of Saudi Arabia
(A Saudi Closed Joint Stock Company)
Financial Statements
For the year ended 31 December 2022
Together with the Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of **The Northern Trust Company of Saudi Arabia (the "Company")**, which comprise the statement of financial position as at December 31, 2022, and the statements of profit or loss, comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs), that are endorsed in Kingdom of Saudi Arabia, and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis of Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA"), the Companies Regulations, the Company's by-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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



Al Azem, Al Sudairy, Al Shaikh & Partners
For Professional Consulting



Abdullah M. Al Azem
Licence No. 335

08 Ramdan 1444H (30 March 2023)
Riyadh, Saudi Arabia

**Statement of Financial Position
As at 31 December 2022**

	<u>Note</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
		<u>SAR</u>	<u>SAR</u>
<u>Assets</u>			
Non-current assets			
Property and equipment, net	6	1,409,158	2,053,809
Right of Use assets, net	23	1,145,050	1,869,117
Deferred tax asset	19	471,489	440,256
Total non-current assets		3,025,697	4,363,182
Current assets			
Cash and cash equivalents, net	7	124,720,343	140,349,416
Due from related parties	8	141,619	4,094,350
Accrued income and fee receivable, net	9	20,693,538	33,926,659
Prepayments and other current assets	11	4,004,549	1,431,662
Total current assets		149,560,049	179,802,087
Total assets		152,585,746	184,165,269
<u>Liabilities</u>			
Non-current liabilities			
Employees' end of service benefits	12	1,041,675	1,225,583
Leases	23	75,147	799,875
Total non-current liabilities		1,116,822	2,025,458
Current liabilities			
Due to related parties	8	11,179,830	484,160
Accrued expenses and other liabilities	10	11,696,873	12,055,405
Tax provisions	19	1,641,580	1,044,461
Leases	23	715,001	730,964
Total current liabilities		25,233,284	14,314,990
Total Liabilities		26,350,106	16,340,448
<u>Shareholder's Equity</u>			
Share capital	13	52,000,000	52,000,000
Statutory reserves	14	15,600,000	14,623,566
Remeasurement reserve of employees' end of service benefits and deferred tax		644,316	288,447
Retained earnings		57,991,324	100,912,808
Total shareholder's equity		126,235,640	167,824,821
Total liabilities and shareholder's equity		152,585,746	184,165,269

**Statement of Profit or Loss
For the Year Ended 31 December 2022**

	<u>Note</u>	<u>For the Year Ended</u> <u>31 December 2022</u> <u>SAR</u>	<u>For the Year Ended</u> <u>31 December 2021</u> <u>SAR</u>
<u>Revenues</u>			
Revenue from contracts with customers	15	41,800,171	46,931,712
Transfer pricing revenues	8	55,620,808	34,703,348
Custodian fees		(44,356,746)	(31,229,730)
Net operating revenues		53,064,233	50,405,330
<u>Expenses</u>			
Salaries and employee related expenses		(17,305,946)	(12,712,116)
Legal and professional expenses		(1,636,277)	(2,581,707)
Occupancy expenses		(301,377)	(304,908)
Business development expenses		(389,568)	(84,336)
Depreciation	6,23	(1,418,530)	(1,439,581)
Interest expense	23	(26,698)	(42,021)
Other expenses		(3,988,117)	(3,854,123)
Total operating expenses		(25,066,513)	(21,018,792)
Operating profit		27,997,720	29,386,538
Other income	16	1,388,484	427,960
Profit before income tax		29,386,204	29,814,498
Income tax expense	19	(6,331,254)	(6,391,755)
Profit for the year		23,054,950	23,422,743

Statement of Comprehensive Income
For the Year Ended 31 December 2022

	<u>Note</u>	<u>For the Year Ended</u> <u>31 December 2022</u> <u>SAR</u>	<u>For the Year Ended</u> <u>31 December 2021</u> <u>SAR</u>
Profit for the year		23,054,950	23,422,743
<i>Items that will not be reclassified to profit or loss in subsequent years</i>			
Actuarial gains on defined benefit obligations	12	444,836	190,041
Related deferred tax	19	<u>(88,967)</u>	<u>(38,008)</u>
		<u>355,869</u>	<u>152,033</u>
Total comprehensive income for the year		<u><u>23,410,819</u></u>	<u><u>23,574,776</u></u>

Statement of Changes in Shareholder's Equity
For the Year Ended 31 December 2022

	<u>Share Capital</u> SAR	<u>Statutory Reserves</u> SAR	<u>Remeasurement Reserve of Employees' End of Service Benefits and Deferred Tax</u> SAR	<u>Retained Earnings</u> SAR	<u>Total Shareholder's Equity</u> SAR
<u>Balance as at 1 January 2021</u>	52,000,000	12,281,292	136,414	79,832,339	144,250,045
Total profit for the year	-	-	-	23,422,743	23,422,743
Actuarial gains on employees' end of service benefits	-	-	152,033	-	152,033
Transfer to statutory reserves	-	2,342,274	-	(2,342,274)	-
<u>Balance as at 31 December 2021</u>	52,000,000	14,623,566	288,447	100,912,808	167,824,821
Total profit for the year	-	-	-	23,054,950	23,054,950
Actuarial gains on employees' end of service benefits	-	-	355,869	-	355,869
Transfer to statutory reserves	-	976,434	-	(976,434)	-
Dividend declared	-	-	-	(65,000,000)	(65,000,000)
<u>Balance as at 31 December 2022</u>	52,000,000	15,600,000	644,316	57,991,324	126,235,640

Statement of Cash Flows
For the Year Ended 31 December 2022

		<u>For the Year</u> <u>Ended</u> <u>31 December 2022</u>	<u>For the Year Ended</u> <u>31 December 2021</u>
		<u>SAR</u>	<u>SAR</u>
<u>Cash flows from operating activities</u>			
Profit for the year	<u>Note</u>	23,054,950	23,422,743
<i>Adjustments to reconcile net income to net cash generated in operating activities:</i>			
Depreciation	6,23	1,418,531	1,439,581
Other non monetary items		(2)	2
Provision for employees' end of service benefits	12	533,723	523,100
Interest expense	23	26,698	42,021
Income tax	19	6,331,254	6,391,755
		<u>31,365,154</u>	<u>31,819,202</u>
Changes in operating assets and liabilities:			
Decrease/(increase) in related party balances		3,952,731	(4,576,809)
(Increase)/decrease in prepayments and other current assets		(2,572,887)	(491,636)
Decrease/(increase) in accrued income and fee receivables		13,233,121	(2,696,040)
Increase in accrued expenses and other current liabilities		10,337,138	7,041,267
Employees' end of service benefits paid	12	(272,795)	(15,892)
Income tax paid	19	(5,854,334)	(7,122,075)
Net cashflow from operating activities		<u>50,188,128</u>	<u>23,958,017</u>
<u>Cash flows from investing activities</u>			
Purchase of property and equipment	6	(34,741)	(70,961)
Net cashflow (used in) investing activities		<u>(34,741)</u>	<u>(70,961)</u>
<u>Cash flows from financing activities</u>			
Dividends declared and paid during the year		(65,000,000)	-
Payments for the principal portion of the lease liability	23	(782,460)	(782,460)
Net cashflow (used in) financing activities		<u>(65,782,460)</u>	<u>(782,460)</u>
Net (decrease)/increase in cash and cash equivalents		(15,629,073)	23,104,596
Cash and cash equivalents at beginning of the year		<u>140,349,416</u>	<u>117,244,820</u>
Cash and cash equivalents at end of the year		<u>124,720,343</u>	<u>140,349,416</u>
Non-cash transactions			
Actuarial gain on defined benefit obligation		<u>444,836</u>	<u>190,041</u>

Notes to the Financial Statements
For the year ended 31 December 2022

1. Organisation and its activities

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

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

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

2. Basis of preparation of financial statements

a) *Statement of compliance*

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

The Company prepared its financial statements for all periods including the year ended 31 December 2022 in accordance with the International Financial Reporting Standards (IFRS) as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA").

b) *Basis of measurement*

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

c) *Functional and presentation currency*

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

Notes to the Financial Statements
For the year ended 31 December 2022

3. Standards and amendments issued

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

a) Standards and interpretations in issue but not yet effective

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

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

- 1 January 2023 IFRS 17 Insurance Contracts
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS 2 Practice Statement 2
Definition of Accounting Estimate - Amendments to IAS 8
Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12
- 1 January 2024 Classification of Liabilities as Current or Non-current - Amendments to IAS 1
Lease liability in a Sale and Leaseback Amendments to IFRS 16
- Available for adoption Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

b) Changes in accounting policy

- **Annual improvements to IFRS Standards 2018-2020**

As part of the annual improvements an amendment to IFRS 9 was agreed. The amendment focused on fees in the '10 percent' Test for Derecognition of Financial Liabilities. In determining whether to derecognise a financial liability that has been modified or exchanged, an entity assesses whether the terms are substantially different. The amendment to IFRS 9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

The amendment is meant to clarify and/or remove inconsistencies within the existing guidance and there is no immediate impact to the Company.

- **Amendments to IAS 37, Provisions Contingent Liabilities and Contingent Assets**

The IASB amended IAS 37 to clarify that for the purpose of assessing whether a contract is onerous or loss making, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The amendment is effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022. Upon adoption, the amendment to IAS 37 did not have an impact on the Company's balance sheet or profit and loss as the Company does not have any onerous contracts. However, going forward, this amendment will be considered when assessing whether a contract is onerous.

Notes to the Financial Statements
For the year ended 31 December 2022

3. Standards and amendments issued (continued)

b) Changes in accounting policy (continued)

- **Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use**

The amendment to IAS 16 prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The Company does not own such Property, Plant and Equipment and as a result there is no impact from this change.

4. Summary of significant accounting policies

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

a) Property and equipment

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

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

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

Leasehold improvements	15 years or lease term whichever is lower
Furniture and fixtures	3-10 years

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

b) Revenue recognition

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

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

Notes to the Financial Statements
For the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

c) Operating Expenses

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

d) Payables and accruals

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

e) Employees' end of service benefits

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

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

f) Financial instruments

• Classification and measurement - financial assets

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

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

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

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

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

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

Notes to the Financial Statements
For the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

f) Financial instruments (continued)

- **Trust fee receivables**

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

- **Financial liabilities**

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

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

- **Trade payables**

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

g) Leases

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

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

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

h) Offsetting

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

Notes to the Financial Statements
For the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

i) Foreign currency transactions

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

j) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimates.

k) Cash and cash equivalents

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

l) Taxation

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

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

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

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

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

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

m) Dividends

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

Notes to the Financial Statements
For the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

n) Share based payments

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

o) Impairment of financial assets

• **Cash and cash equivalents**

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

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

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

• **Trust and other servicing fees receivables**

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

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

p) Impairment of non-financial assets

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

Notes to the Financial Statements
For the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

p) Impairment of non-financial assets (continued)

been recognized for the assets or cash generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the profit or loss.

5. Critical accounting estimates

a) Measurement of contract assets and fee receivables

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

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

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

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

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

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

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

The 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.

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

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

**Notes to the Financial Statements
For the year ended 31 December 2022**
6. Property and equipment, net

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Cost	3,468,356	3,493,572
Less: Accumulated depreciation	<u>(2,059,198)</u>	<u>(1,439,763)</u>
Net book value at year end	<u><u>1,409,158</u></u>	<u><u>2,053,809</u></u>

	<u>Leasehold improvements</u>	<u>Furniture & Fixtures</u>	<u>Total</u>
	<u>SAR</u>	<u>SAR</u>	<u>SAR</u>
Cost:			
Balance at the beginning of the year	2,880,741	612,831	3,493,572
Additions	-	34,741	34,741
Disposals	-	<u>(59,957)</u>	<u>(59,957)</u>
Balance at the end of year	<u><u>2,880,741</u></u>	<u><u>587,615</u></u>	<u><u>3,468,356</u></u>
Accumulated depreciation:			
Balance at the beginning of the year	1,023,438	416,325	1,439,763
Charge for the year	581,832	97,560	679,392
Disposals	-	<u>(59,957)</u>	<u>(59,957)</u>
Balance at end of the year	<u><u>1,605,270</u></u>	<u><u>453,928</u></u>	<u><u>2,059,198</u></u>

7. Cash and cash equivalents, net

The term deposit was placed with local banks and carries a interest rate ranging from 4.95% to 5.05% per annum (2021: 0.3% to 0.65% per annum) with a maturity period of three months from the date of deposit.

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Cash and bank - current accounts	54,737,014	40,373,037
Term deposits	<u>70,000,000</u>	<u>100,000,000</u>
	<u>124,737,014</u>	<u>140,373,037</u>
Less: ECL	<u>(16,671)</u>	<u>(23,621)</u>
	<u><u>124,720,343</u></u>	<u><u>140,349,416</u></u>

Movement on ECL the impairment provision for cash and equivalents

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Opening balance	23,621	58,405
Provision for the year	<u>(6,950)</u>	<u>(34,784)</u>
Closing balance	<u><u>16,671</u></u>	<u><u>23,621</u></u>

Notes to the Financial Statements
For the year ended 31 December 2022

8. Related party transactions and balances

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

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

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

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

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

respect to each of the product lines. Allocation keys are reassessed on a global basis periodically to ensure that these continue to be representative of the relative contributions of the various product lines.

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

<u>Related party</u>	<u>Nature of transaction</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
		<u>SAR</u>	<u>SAR</u>
Affiliates	Net revenue under the transfer pricing policy	55,620,808	34,703,348
	Salaries and employees related expenses - allocation of employee costs (share based compensation)	822,315	574,799

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

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

Notes to the Financial Statements
For the year ended 31 December 2022

8. Related party transactions and balances (continued)

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

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Salaries and short term benefits	8,755,358	7,287,880
End of service benefits	233,857	-
Share-based payments	827,010	710,710
	<u>9,816,225</u>	<u>7,998,590</u>

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

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
End of service benefits payable	<u>376,864</u>	<u>435,773</u>

The independent non-executive directors are entitled to a fee on basis of their respective service agreements with the Company. The fee for December 2022 was SAR 458,750 (Dec 2021: SAR 500,000)

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

Due from related parties	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
The Northern Trust Company, USA	141,619	4,088,275
Northern Trust Global Services SE Sweden Bankfilial	-	6,075
	<u>141,619</u>	<u>4,094,350</u>

The management has reviewed the impairment value on the outstanding balances and was immaterial on the financial statement as of December 31, 2022.

Due to related parties	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
The Northern Trust Company, London Branch	10,946,372	227,544
Other affiliates	233,458	256,616
	<u>11,179,830</u>	<u>484,160</u>

Notes to the Financial Statements
For the year ended 31 December 2022

9. Accrued income and fee receivable, net

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Accrued fee income	15,070,205	11,830,459
Accrued commission income	395,063	78,153
Trust and other service fee receivables	7,055,209	22,635,801
	<u>22,520,477</u>	<u>34,544,413</u>
Less: Provision for impairment	(1,826,939)	(617,754)
	<u>20,693,538</u>	<u>33,926,659</u>

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

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Opening balance	617,754	576,102
Provision for the year	1,209,185	41,652
Closing balance	<u>1,826,939</u>	<u>617,754</u>

Ageing of trust and other service fee receivables

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Neither past due nor impaired	232,770	27,742
<i>Past due but not impaired</i>		
Less than 180 days	1,689,534	20,989,960
Less than 365 days	2,966,135	1,156,566
More than 365 days	2,166,770	461,533
Total past due but not impaired	<u>6,822,439</u>	<u>22,608,059</u>
Total	<u>7,055,209</u>	<u>22,635,801</u>

10. Accrued expenses and other payables

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Accrued custodian fees	8,501,353	10,103,436
Accounts payable	1,177,988	24,437
Staff related expenses payable	1,643,487	1,370,216
Other accrued expenses	374,045	557,316
	<u>11,696,873</u>	<u>12,055,405</u>

Notes to the Financial Statements
For the year ended 31 December 2022

11. Prepayments and other current assets

	<u>31 December 2022</u>	<u>31 December 2021</u>
	SAR	SAR
Prepaid expenses	909,705	975,490
Other current assets	482,256	456,172
VAT recoverable	2,612,588	-
	<u>4,004,549</u>	<u>1,431,662</u>

12. Employee's end of service benefits

General description

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

Principal actuarial assumptions

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

	<u>31 December 2022</u>	<u>31 December 2021</u>
	SAR	SAR
Valuation discount rate	5.30 %	2.65 %
Rate of salary increases	5.00 %	5.00 %
Withdrawal rate	10.00 %	10.00 %

Reconciliation of defined benefit obligation

	<u>31 December 2022</u>	<u>31 December 2021</u>
	SAR	SAR
Present value of defined benefits obligation	1,041,675	1,225,583
Net Liability	<u>1,041,675</u>	<u>1,225,583</u>

Movement of defined benefit obligation

	<u>31 December 2022</u>	<u>31 December 2021</u>
	SAR	SAR
Opening balance	1,225,583	908,416
Charge to income statement	533,723	523,100
Charge to comprehensive income	(444,836)	(190,041)
Payment of benefits during the year	(272,795)	(15,892)
	<u>1,041,675</u>	<u>1,225,583</u>

Notes to the Financial Statements
For the year ended 31 December 2022

12. Employee's end of service benefits (continued)

Reconciliation of present value of defined benefit obligation	31 December 2022	31 December 2021
	SAR	SAR
Opening balance	1,225,583	908,416
Current service cost	495,859	498,382
Financial cost	37,864	24,718
Actuarial gain from experience adjustments	(444,836)	(190,041)
Benefits paid	(272,795)	(15,892)
	<u>1,041,675</u>	<u>1,225,583</u>
	31 December 2022	31 December 2021
	SAR	SAR
Sensitivity Analysis		
0.5% decrease in discount rate	43,565	59,166
1.00% decrease in salary	(79,984)	(105,198)
5.00% decrease in withdrawal rate	193,921	326,189

13. Share capital

As at 31 December 2022, the authorised, issued and paid-up share capital of the Company is SAR 52 million divided into 5.2 million shares of SAR 10 each (31 December 2021: SAR 52 million divided into 5.2 million shares of SAR 10 each).

14. Statutory reserve

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

15. Revenue from contracts with customers

	31 December 2022	31 December 2021
	SAR	SAR
Revenue from assets owners	2,695,707	18,191,629
Revenue from fund managers	39,104,464	28,740,083
	<u>41,800,171</u>	<u>46,931,712</u>

- Trust and other servicing fees

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

Notes to the Financial Statements
For the year ended 31 December 2022

15. Revenue from contracts with customers (continued)

• **Performance obligations**

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

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

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

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

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Trust and other service fee receivables	7,055,209	22,635,801
Accrued fee income	15,070,205	11,830,459
	<u>22,125,414</u>	<u>34,466,260</u>

16. Other income

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Interest income	1,299,847	411,632
Other	88,637	16,328
	<u>1,388,484</u>	<u>427,960</u>

17. Impairment loss

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

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Reversal of impairment reserve recognised on cash and cash equivalents	(6,950)	(34,784)
Impairment loss on Trust and other service fee receivables	1,209,185	41,652
	<u>1,202,235</u>	<u>6,868</u>

Notes to the Financial Statements
For the year ended 31 December 2022

18. Share based payments

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

Grant dates: 23 February 2022, 2 August 2021, 17 February 2021, 18 February 2020 and 19 February 2019.

Vesting period: 4 years from date of grant

Vesting conditions: Employee to remain employed during the vesting period

Method of settlement: Shares

Awards granted during the year 1,958 (2021: 2,344)

Market price at award date USD 113.64 at 23 February 2022 (2021: USD 111.94 & USD 97.46 at 2 August 2021 and 17 February 2021 respectively)

Total expenses for share based payment for the year was SAR 822,314 (2021: SAR 574,799).

19. Tax provisions

	<u>31 December 2022</u>	<u>31 December 2021</u>
	SAR	SAR
Current tax		
Current year exposure	6,455,207	6,421,923
Adjustments in respect of previous periods	(3,753)	65,940
	<u>6,451,454</u>	<u>6,487,863</u>
Deferred tax		
Defined benefit pension obligations	(68,014)	(101,442)
Fixed assets	(52,186)	5,334
Total	<u>(120,200)</u>	<u>(96,108)</u>
Total Tax charge	<u><u>6,331,254</u></u>	<u><u>6,391,755</u></u>

Notes to the Financial Statements
For the year ended 31 December 2022

19. Tax provisions (continued)

Factors affecting tax charge for the year

The Company has made a provision for income tax of SAR 5.9 million (2021: 6.4 million) for income tax for the year ended 31 December 2022 on the following basis:

Income Tax	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Profit on ordinary activities before tax	<u>29,386,204</u>	29,814,498
Profits on ordinary activities multiplied by the current rate of corporation tax of 20% (2021: 20%)	<u>5,877,241</u>	<u>5,962,899</u>
Total tax		
<i>Effects of:</i>		
Permanent differences	577,966	459,024
Deferred tax movements	(120,200)	(96,108)
Adjustment to the tax charge in respect of previous periods	(3,753)	65,940
Tax charge for the year	<u>6,331,254</u>	<u>6,391,755</u>
 Movement in the provision		
Balance at the beginning of the year	1,044,460	1,678,672
Charge for the year - current year	6,455,207	6,421,924
Charge for the year - prior year	(3,753)	65,940
Payment made during the year	(5,854,334)	(7,122,075)
Balance at the end of the year	<u>1,641,580</u>	<u>1,044,461</u>

Income tax declaration for the year ended 31 December 2022 will be submitted to the Zakat, Tax and Custom Authority in due course.

Deferred tax assets

Recognised deferred tax assets and liabilities	<u>Assets 2022</u>	<u>Assets 2021</u>	<u>Net 2022</u>	<u>Net 2021</u>
	<u>SAR</u>	<u>SAR</u>	<u>SAR</u>	<u>SAR</u>
Fixed assets	263,154	195,140	263,154	195,140
Defined benefit pension scheme	208,335	245,116	208,335	245,116
	<u>471,489</u>	<u>440,256</u>	<u>471,489</u>	<u>440,256</u>

Movement in deferred tax during the year

	<u>01 Jan 2022</u>	<u>Recognised in</u>	<u>Recognised in</u>	<u>31 Dec 2022</u>
	<u>SAR</u>	<u>Income</u>	<u>OCI</u>	<u>SAR</u>
		<u>SAR</u>	<u>SAR</u>	
Fixed assets	195,140	68,014	-	263,154
Defined benefit pension scheme	245,116	52,186	(88,967)	208,335
	<u>440,256</u>	<u>120,200</u>	<u>(88,967)</u>	<u>471,489</u>

Notes to the Financial Statements
For the year ended 31 December 2022

19. Tax provisions (continued)

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

20. Financial risk management

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

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

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

Credit risk

Credit risk is the risk to interest income or principal from the failure of a borrower or counterparty to perform an obligation. Credit risk mainly arises from the placement of cash with local banks and fee income that may not be received. The counterparties used for investment of surplus cash are highly credit worthy financial institutions and placements are limited to a maximum tenor of 3 months. IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

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

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

Notes to the Financial Statements
For the year ended 31 December 2022

20. Financial risk management (continued)

Financial assets (including trade and other debtors)

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

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

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

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

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

Credit impaired financial assets

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

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

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

Determining significant increases in credit risk

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

The Company assigns an internal borrower rating to each of its counterparties which reflects the creditworthiness of the counterparty. Borrower ratings are assigned according to the Credit Policy and

Notes to the Financial Statements
For the year ended 31 December 2022

20. Financial risk management (continued)

account for quantitative and qualitative aspects of the counterparty's financial health. A borrower rating of one is the strongest and of nine is the weakest.

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

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

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

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

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

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

Notes to the Financial Statements
For the year ended 31 December 2022

20. Financial risk management (continued)

Measuring expected credit losses

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

Presentation of ECL allowances

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

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Cash and cash equivalents, net	124,720,343	140,349,416
Due from related parties	141,619	4,094,350
Accrued income and fee receivable, net	20,693,538	33,926,659
Other current assets	3,094,844	456,172
	<u>148,650,344</u>	<u>178,826,597</u>

Liquidity risk

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

The below summaries maturities profile of financial liabilities.

December 2022	<u>Less than</u> <u>one year</u>	<u>More than</u> <u>one year</u>	<u>Total</u>
	<u>SAR</u>	<u>SAR</u>	<u>SAR</u>
Liabilities			
Due to related parties	(11,179,830)	-	(11,179,830)
Accrued expenses and other liabilities	(11,696,873)	-	(11,696,873)
Leases	(715,001)	(75,147)	(790,148)
Employees' end of service benefits	-	(1,041,675)	(1,041,675)
	<u>(23,591,704)</u>	<u>(1,116,822)</u>	<u>(24,708,526)</u>

Notes to the Financial Statements
For the year ended 31 December 2022

20. Financial risk management (continued)

December 2021	<u>Less than one year</u> <u>SAR</u>	<u>More than one year</u> <u>SAR</u>	<u>Total</u> <u>SAR</u>
Liabilities			
Due to related parties	(484,160)	-	(484,160)
Accrued expenses and other liabilities	(12,055,405)	-	(12,055,405)
Lease	(730,964)	(799,875)	(1,530,839)
Employees' end of service benefits	-	(1,225,583)	(1,225,583)
	<u>(13,270,529)</u>	<u>(2,025,458)</u>	<u>(15,295,987)</u>

Foreign exchange risk

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

	<u>31 December 2022</u> <u>SAR</u>	<u>31 December 2021</u> <u>SAR</u>
Saudi Arabia Riyal	126,925,279	168,622,799
United States Dollar	(689,639)	(639,185)
Total	<u>126,235,640</u>	<u>167,983,614</u>

Commission rate risk

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

	<u>31 December 2022</u> <u>SAR</u>	<u>31 December 2021</u> <u>SAR</u>
Less than 1 month	-	15,000,000
Less than 3 months	70,000,000	85,000,000
	<u>70,000,000</u>	<u>100,000,000</u>

21. Dividends

	<u>31 December 2022</u> <u>SAR</u>	<u>31 December 2021</u> <u>SAR</u>
Dividends declared and paid	(65,000,000)	-

On 14 June 2022, the Directors approved the payment of a dividend of SAR 65,000,000 (SAR 12.5 per share) to its parent Company, Northern Trust Corporation (2021: SAR Nil).

Notes to the Financial Statements
For the year ended 31 December 2022

22. Capital management

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

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

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

<i>Capital base</i>	<u>31 December 2022</u> SAR	<u>31 December 2021</u> SAR
Tier 1 Capital	125,120,000	167,097,000
Tier 2 Capital	-	-
Total Capital Base	<u>125,120,000</u>	<u>167,097,000</u>
	<u>31 December 2022</u> SAR	<u>31 December 2021</u> SAR
Market risk	-	-
Credit risk	11,713,000	8,885,000
Operational risk	7,914,000	13,062,000
Total minimum capital requirement	<u>19,627,000</u>	<u>21,947,000</u>
	<u>31 December 2022</u> SAR	<u>31 December 2021</u> SAR
Surplus in capital	105,493,000	145,150,000
Total capital ratio (times)	<u>6.37</u>	<u>7.61</u>

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

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

Notes to the Financial Statements
For the year ended 31 December 2022
23. Right of use assets, net and lease liabilities

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

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

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

	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Balance as at ROU assets, net		
Balance as at 1 January	1,869,117	2,592,647
Additions during the year	15,072	-
Depreciation charge for the year	(739,139)	(723,530)
Carrying amount of ROU asset as at 31 December	<u><u>1,145,050</u></u>	<u><u>1,869,117</u></u>
	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Balance as at Maturity analysis of lease liabilities		
Less than 1 year	782,460	782,460
1 to 5 years	16,827	782,460
More than 5 years	-	-
Total undiscounted lease liabilities at 31 December	<u><u>799,287</u></u>	<u><u>1,564,920</u></u>
	<u>31 December 2022</u>	<u>31 December 2021</u>
	<u>SAR</u>	<u>SAR</u>
Balance as at Amounts recognised in profit and loss		
Interest expense	26,698	42,021
Depreciation charge for ROU assets	739,139	723,530
Total amounts recognised in profit and loss at 31 December	<u><u>765,837</u></u>	<u><u>765,551</u></u>

24. Operational risk management

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

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

Notes to the Financial Statements
For the year ended 31 December 2022

25. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As the accompanying financial statements are prepared under the historical cost method, differences may arise between the book values and the fair value estimates.

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

26. Segment reporting

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

27. Fiduciary accounts

The Company has appointed a related party, The Northern Trust Company London Branch, as global custodian, that held its client's cash, as at 31 December 2022 amounting to SAR 251.0 million (31 December 2021: SAR 478.0 million). Such balances are not included in the Company's financial statements.

28. Comparative figures

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

29. Approval of financial statements

The financial statements were approved by the Directors of the Company and signed on their behalf on 29 March 2023 (07 Ramadan 1444 H).

