

J.P. MORGAN SAUDI ARABIA COMPANY

Board Report 2021

J.P.Morgan

## Table of contents

<b>1. Overview .....</b>	<b>3</b>
<b>2. Licenses .....</b>	<b>3</b>
Arranging	3
Advisory	3
Underwriting	3
Custody	3
Dealing	3
<b>3. Financials .....</b>	<b>4</b>
<b>4. Risk .....</b>	<b>6</b>
<b>5. Board Member Interests .....</b>	<b>8</b>
<b>6. Board Members and Meetings .....</b>	<b>8</b>
Board Members:	9
Remunerations and Compensations:	9
<b>7. Main Committees of the Board of Directors .....</b>	<b>9</b>
Internal Audit Committee	9
Compliance Committee	10
Nomination and Remuneration Committee	11
<b>8. Violations .....</b>	<b>11</b>
<b>9. Internal Audit Reviews and Audit Committee Opinion .....</b>	<b>11</b>
<b>10. Remuneration and Compensation Disclosure in SAR</b>	<b>18</b>

## Appendices

<b>Appendix 1:</b> .....	<b>13</b>
<b>a- Board Members Membership in Other Companies</b> .....	<b>13</b>
Prince Mohammed Bin Khalid Abdullah Al Faisal Al Saud (resigned 1 January 2022)	13
Bader Alamoudi	
Ziyad Al-Saleh	
Fahad Aldeweesh	
Tara Lamont	
Khalid Fayez	
<b>Appendix 1:</b> .....	<b>15</b>
<b>b- Board Members Interests</b> .....	<b>15</b>
Prince Mohammed Bin Khalid Abdullah Al Faisal Al Saud	15
<b>Appendix 2: 2020 Board Meetings Attendance Record</b> .....	<b>16</b>
Attendance Record of 2021 Board Meetings	16
Attendance Record of 2021 Nomination and Remuneration Committee	
Attendance Record of 2021 Internal Audit Committee Meetings	17
Attendance Record of 2021 Compliance Committee Meetings	17
<b>Appendix 3: Remuneration and Compensation</b> .....	<b>17</b>
<b>Appendix 4: Audited Financial Statement</b> .....	<b>20</b>

## 1. Overview

J.P. Morgan Saudi Arabia Company (the “Company” and “JPMSA”) is a single shareholder closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. On 11th November 2012, JPMSA was awarded a CMA license to amend its activities to include dealing as principle, dealing as agent in the local market and underwriting and commenced its business on 6th October 2015.

In 2017, the company converted from a Limited Liability Company to a Single Shareholder Closed Joint Stock Company as directed by the CMA. The Company is a direct and wholly owned subsidiary of J.P. Morgan International Finance Limited (“JPMIF”). The Company currently has paid up share capital of SAR 93,750,000 which was approved as a capital increase by the CMA on 26<sup>th</sup> April 2015. The Company does not have any subsidiaries and does not own or control any other company.

JPMSA is located on the 8th floor of the Al Faisaliah Tower in Riyadh. The Company’s clients include banks, government institutions, large corporate clients and large family groups.

The Company continues to invest in people and expanding its platform capability to enable seamless local and international client execution.

## 2. Licenses

### a. Arranging

The Investment Banking team at the Company participates in arranging transactions on equity, debt or hybrid offerings.

### b. Advisory

The Company is licensed to advise clients on Mergers & Acquisitions, disposals, joint ventures, corporate restructurings, privatizations and financial services.

### c. Underwriting

The Company is licensed to underwrite public transactions in Saudi Arabia.

### d. Custody

#### *Direct Custody and Clearing (“DCC”)*

J.P. Morgan's Direct Custody and Clearing (DCC) provides clients with access to all local/domestic market infrastructures, including exchanges, clearing houses and depositories. Combining local deployment of world-class technology, proven leadership, comprehensive product and service capabilities in securities services, we meet the needs of a diverse clientele including universal banks, global custodians, market infrastructures, international broker dealers and domestic financial institutions. Through DCC we provide an end-to-end processing capability spanning the clearing, settlement, custody and asset servicing value chain.

Local market experts work in partnership with clients to deliver best-in-class securities services including on-exchange clearing, settlement, safekeeping, asset servicing, fails coverage, FX and treasury services. Close engagement with market infrastructures and decision makers ensures clients' interests are represented locally and they are kept informed of market changes impacting their business.

#### Key Benefits

- Core products and value-added services – direct local market access for clearing, settlement, custody and asset servicing
- Distinctive client experience – global, regional and local approach to relationship management and client service
- Global consistency and scale – globally consistent service levels and contractual documentation
- Advocacy – close engagement with industry partners and regulators, lobbying for best market practices and representing our clients' interests in the local market
- Breadth of J.P. Morgan products – access to J.P. Morgan's end-to-end capabilities for a wide range of asset classes and investment strategies.

#### *Global Custody*

The Company supports JPMorgan's Global Custody clients investing in international assets by establishing relationship management and local client service capabilities in the Kingdom. This group supports Saudi and GCC clients including government entities, investment firms, and banks.

#### **e. Dealing**

The Company provides brokerage services on The Saudi Stock Exchange ("Tadawul") for local, Gulf Cooperation Council ("GCC") and Qualified Foreign Investor ("QFI") clients. The Company went live with Independent Custody Model ("ICM") agency business and Algorithmic Trading in 2018. The Company acts as an agent on behalf of other J.P. Morgan entities in marketing securities and other financial instruments including OTC derivatives transactions, foreign currency, rates and credit trading.

### **3. FINANCIALS**

PriceWaterhouseCoopers ("PwC") conducted an external audit of the Company for the 2021 fiscal year and provided an unqualified audit opinion that the financial statements present fairly, in all material respects, in accordance with International Financial Reporting Standards, that are endorsed by Saudi Organization for Certified Public Accountants ("SOCPA") in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by SOCPA.

JPMSA's operating income in 2021 was SAR137mm, which has increased compared to prior year (2020: SAR95mm) driven by increased investment banking, markets and custody and clearing business revenues. Operating expenses (2021: SAR44mm) increased compared to prior year (2020: SAR42mm) due to higher salaries and employee related benefits. Over the five year's period, operating income has increased by 270% while the related operating expenses have increased by only 83%. Markets and Investment Banking businesses have been the main contributors to the income over the initial years. However, from FY 2019 onwards, Equities Brokerage and Custody businesses have also made sizeable contributions to the overall income. This has reduced operating income concentration to more diversified revenue streams.

The average net margin over the same period is just over 40%. There was a slight dip in net margins in FY'17 mainly due to initial build costs related to new products roll out. Net profit after tax for 2021 was SAR73mm up from 2020 (SAR42mm) driven by increased revenues in 2021. The decrease in assets from FY'19 onwards is due to Swaps business migration to the QFI holdings and as a result the brokerage business switched to agency flow.

The Company's FY 2022 Annual Plan has been approved by the Board of Directors. The Company is adequately capitalised and holds sufficient levels of liquidity to meet its obligations. All business expansion initiatives including new product offerings are subject to internal governance process with due consideration to the available capital resources, regulatory framework etc. The Company regularly updates its forecasts and expects to achieve its Annual Plan for the year.

A summary of last 5 year's key financial metrics is stated below:

SAR' mm	FY'21	FY'20	FY'19	FY'18	FY'17
Total Assets	401	307	407	1,729	159
Total Liabilities	53	32	173	1,553	10
Total Equity	348	275	234	176	149
Total Liabilities and Equity	401	307	407	1,729	159
Income	137	95	111	65	37
Expenses	(44)	(42)	(39)	(30)	(24)
Taxation	(20)	(11)	(15)	(7)	(3)
Net income	73	42	57	28	10

In the ordinary course of its activities, the Company transacts business with its related parties. Related parties include JPMorgan Chase Bank, National Association including foreign branches and affiliated entities; the Board of Directors; and key management personnel. Key management personnel are those persons, including Non-executive Director, having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The transactions with related parties are carried out on mutually agreed terms approved by the management of the Company. Significant transactions with related parties in the ordinary course of business are summarized in the Note 4 of the Financial Statements.

## 4. Company's Risks

Risk is an inherent part of JPMorgan Chase's business activities. The Firm's overall objective is to manage its businesses, and the associated risks, in a manner that balances serving the interests of its clients, customers and investors and protects the safety and soundness of the Firm.

Each Line of Business owns the ongoing identification of risks, as well as the design and execution of controls, inclusive of Independent Risk Management specified controls, to manage those risks. To support this activity, the Firm has a Risk Identification process in which the first line of defense identifies material risks inherent to the firm, catalogues them in a central repository and reviews the most material risks on a regular basis. The second line of defense establishes the risk identification framework, coordinates the process, maintains the central repository and reviews and challenges the first line's identification of risks.

JPMSA has developed the Risk Manual that sets out the key policies and the associated documentation framework for the effective Risk Management of JPMSA. This document is updated at least once a year and approved by the JPMSA Management Committee. Additionally, JPMSA has the annual risk identification and assessment process that is summarised in the annual ICAAP document, which further details the approaches adopted, the level of risk and how they are managed.

JPMSA identified the following applicable and material risks: business risk, capital risk including FX risk to capital ratios, group risk, liquidity risk, reputation risk, credit risk, market risk, interest rate risk in banking book (commission rate risk), operational risk, country risk and pension (end of service) risk.

- **Business risk:** the risk associated with business decisions that may impact revenue, business growth or viability.
- **Capital risk:** the risk the Firm has an insufficient level and composition of capital to support the Firm's business activities and associated risks during normal economic environments and under stressed conditions. JPMSA is well capitalized and capital risk is intrinsically covered through the ICAAP process. FX risk to capital ratios is the risk of adverse effect of the exchange rate on capital ratios. FX risk to capital ratios for JPMSA arises from risk weighted exposures denominated in non-SAR currencies.
- **Liquidity risk:** the risk that the firm will be unable to meet its contractual and contingent obligations as they arise or that it does not have the appropriate amount, composition and tenor of funding and liquidity to support its assets and liabilities.
  - o JPMSA's assets are mainly liquid overnight deposits or nostro accounts at banks.

- JPMSA may need some funding in case of rejected trades under the Independent Custody Model in its Equities Brokerage. Although the probability of such rejection is relatively low, JPMSA has established processes for providing necessary liquidity to JPMSA in such scenarios by other JPM entities.
- As at YE21, JPMSA has taken no loans but has liabilities of SAR53mm. SABB has provided a guarantee facility to the exchange (Tadawul) on behalf of JPMSA to support the equities and custody business settlement activity. As at YE21, JPMSA has issued a counter guarantee to SABB in the form of an order note amounting to SAR 4bn.
- **Reputation risk:** is the risk that an action or inaction may negatively impact perception of the firm's integrity and reduce confidence in firm's competence by its various constituents, including clients, counterparties, customers, investors, regulators, employees, communities or the broader public. JPM takes a qualitative approach to addressing reputation risk appetite given the nature of the risk.
- **Credit risk:** the risk associated with the default or change in credit profile of a client, counterparty or customer.
  - JPMSA's credit risk profile is limited and short-term, and is driven by deposits held with JPMorgan Chase Bank, N.A. and Saudi British Bank.
  - JPMSA's credit concentration risk is related to single name concentration (JPM group and Saudi British Bank), industry concentration (financial sector) and geographical concentration (Saudi Arabia and USA).
- **Market risk:** the risk associated with the effect of changes in market factors such as interest and foreign exchange rates, equity and commodity prices, credit spreads or implied volatilities, on the value of assets and liabilities held for both the short and long term.
  - JPMSA's market risk is limited to the foreign exchange risk which arises from non-SAR positions. The non-SAR open currency positions are primarily in USD.
  - JPMSA may be exposed to market risk in case of rejected trades under the Independent Custody Model Equities Brokerage business, the probability of which is deemed to be low. JPMSA implemented limits to monitor and control potential market risk arising from such rejected trades.
- **Interest rate risk in banking book** (commission rate risk): results from the firm's traditional banking activities (accrual accounted on and off-balance sheet positions) which includes extension of loans and credit facilities, taking deposits and issuing debt (collectively referred to as 'non-trading' activities). JPMSA's

interest rate risk in banking book is minimal due to the short-term overnight nature of deposits held with banks.

- **Operational risk:** the risk associated with an adverse outcome resulting from inadequate or failed internal processes or systems; human factors; or external events impacting the firm's processes or systems; it includes compliance, conduct, legal and estimations and model risk. Operational risk is inherent in the Firm's activities and can manifest itself in various ways, including fraudulent acts, business interruptions, cybersecurity attacks, inappropriate employee behavior, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their agreements. Operational Risk Management attempts to manage operational risk at appropriate levels considering the Firm's financial position, the characteristics of its businesses, and the markets and regulatory environments in which it operates.
- **Pension (end of service) risk:** the risk caused by the JPMSA obligation with respect to an end of service benefit payment. Pension risk is driven by market and demographic factors where JPMSA may be unable to meet future expected benefit payments.
- **Group risk and country risk** are not separately quantified and are managed as part of risk governance processes of the risks they are part of (including credit, market, operational and liquidity risks).

## 5. Board Member Interests

Details of Board members' appointments as a board member in other companies are listed in Appendix 1. No securities, contractual interests or subscription rights belong to the directors or any associate to them in the company's shares or debt.

## 6. Board Members and Meetings

On 15 August 2021, Khalid Fayeze was appointed a director to fill the casual vacancy created following the resignation of Mohamed Agwah in 2020. Following the appointment of Khalid Fayeze, the Board was fully constituted with six directors, including two independent board members. The Board held two meetings in 2021, the first meeting was held on 23 March 2021 and the second meeting on 9 November 2021. All directors on the record at the time of each meeting attended each meeting as detailed in Appendix 2.

HRH Prince Mohammed Khalid Al Faisal Al Saud resigned as the Chairman and as an Independent member of the Board on 1 January 2022. Ziyad Al Saleh was appointed as the Chairman of the Board on 23 February 2022. The Company is actively recruiting for an additional Independent Board member to fill the casual vacancy on the Board.

**a. Board Members:**

Name	Position
HRH Prince Mohammed Khalid Al Faisal Al Saud	Chairman and Independent Board Member ( <i>resigned 1 January 2022</i> )
Ziyad Al Saleh	Independent Board Member ( <i>appointed Chairman of the Board on 23 February 2022</i> )
Bader Alamoudi	Vice-Chairman and Non-Executive Board Member
Tara Lamont	Non-Executive Board Member
Fahad Aldeweesh	CEO and Executive Board Member
Khalid Fayez	Non-Executive Board Member

**b. Remuneration and Compensation:**

The company's independent board members receive a disbursement of SAR 100,000 each. Other Board members do not receive any remuneration from the Company in their capacity as Board members. The Company is 100% owned by J. P. Morgan International Finance Limited ("JPMIFL") and the Board members, senior executives or relatives do not hold any shares or debt instrument in the Company.

Appendix 3 states the remuneration and compensation paid to Board of Directors and five senior executives including the Chief Executive Officer and Chief Finance Officer.

**7. Main Committees of the Board of Directors**

Internal Audit committee, Compliance committee, and Nomination & Remuneration Committee were established and approved by the Board.

**Internal Audit Committee**

Members of the Committee:

Name	Position
Bader Alamoudi	Chairman
Fuad Khawaja	Member and Secretary
Khaled Fayez	Member

The responsibilities of the Committee shall be to:

- Review the annual Audit and Compliance plans for each business line, including areas of priority and focus and the process of determining what those are.
- Review overall financial and staffing resources available to both functions to meet the objectives of the plan, and management's responses to addressing resourcing issues which may arise.

- Monitor progress toward completion of the plans, including a summary of significant changes made to such plans.
- Receive from Internal Audit and Compliance, periodically, and from management, as appropriate, communications and presentations on significant operating and control issues in internal audit reports, compliance reviews, management letters, and regulatory authorities' examination reports, and management's response to them.
- Recommend to the Board the appointment, dismissal and the Remuneration of external auditors; upon any such recommendation, regard must be made to their independence.
- Supervise the activities of the external auditors and approve any activity beyond the scope of the audit work assigned to them during the performance of their duties and
- Initiate such other inquiries as it deems necessary or appropriate.
- The Audit Committee shall review the Company's financial statements, and auditor's reports and notes, and shall provide its opinion thereon, if any. The Committee shall also prepare a report of its opinion concerning the efficiency of internal control within the company, and about any other activities falling within its powers.

### Compliance Committee

Members of the Committee:

Name	Position
Fahad Aldeweesh	Chairman
Sufiyan Khot	Member
Fuad Khawaja	Member
Wejdan Alfraihi	Member and Secretary

There were no changes to the membership of the Compliance Committee in 2021. The Committee met on four occasions in 2021 with its members in attendance.

The responsibilities of the Committee shall be to:

- Oversee the scope, structure and activities of compliance function to ensure compliance function carrying out its mandate.
- Regularly assess the compliance function independency.
- Ensure the firm's compliance with regulatory requirements and regulations.
- Assessing the compliance function controls regularly.
- Review and monitor the progress of correction actions and compliance plan implementation.
- Review the adequacy of internal policy and procedure to address the compliance need with the authority rules and regulation; and
- Communicating the deficiencies and recommending improvement to the Board of Directors.

## Nomination and Remuneration Committee

Members of the Committee:

Name	Position
Tara Lamont	Chairman
Bader Alamoudi	Member
Nasser Almoammar	Member and Secretary

There were no changes to the membership of the Nomination & Remuneration Committee during 2021. The Committee met three times during 2021 with all members in attendance.

The responsibilities of the Committee shall be to:

- Recommend to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards; the Committee shall ensure that no person who has been previously convicted of any offense affecting honour or honesty is nominated for such membership.
- Annual review of the requirement of suitable skills for membership of the Board of Directors and the preparation of a description of the required capabilities and qualifications for such membership, including, inter alia, the time that a Board member should reserve for the activities of the Board.
- Review the structure of the Board of Directors and recommend changes.
- Determine the points of strength and weakness in the Board of Directors and recommend remedies that are compatible with the company's interest.
- Ensure on an annual basis the independence of the independent members and the absence of any conflict of interest in case a Board member also acts as a member of the Board of Directors of another company.
- Draw clear policies regarding the indemnities and remunerations of the Board of Directors and top executives; in laying down such policies, the standards related to performance shall be followed.

## 8. Violations

No fines have been imposed by the CMA during 2021.

## 9. Internal Audit Reviews and Audit Committee Opinion

Internal Audit performed an audit of Direct Custody and Clearing Saudi Arabia in 2021 to meet the audit requirement as per Article 62 of the Capital Market Authority's Capital Market Institutions Regulations. There were five issues identified by Audit that were subsequently closed by the business. One of the five issues has been validated while the remaining four issues are not yet validated by Audit. Further, the issue identified in 2020

JP Morgan Saudi Arabia Company audit has been validated by Audit with no further issues noted.

**Ziyad Al Saleh**

Chairman of J.P. Morgan Saudi Arabia Company



**Fahad Aldeweesh**

CEO of J.P. Morgan Saudi Arabia Company



**Adil Nooruddin**

CFO of J.P. Morgan Saudi Arabia Company



## Appendix 1:

### a- Board Members Membership in Other Companies

**Prince Mohammed Bin Khalid Abdul Al Faisal Al Saud** *(resigned 1 January 2022)*

**Chairman & Independent Board Member**

Entity	Position Held	Shareholding / Other Interests
Saudi Telecom Co.	<b>Chairman of the Board of Directors</b>	-
Al Faisaliah Group	<b>President</b>	Shareholder
AlKhozama Management Co.	<b>Board Member</b>	Chairman of the Remuneration & Compensation Committee
King Faisal Foundation	<b>Member of the General Assembly</b>	Member of the Audit Committee
King Khalid Foundation	<b>Member of the Board of Trustees</b>	Member of the Investment Committee
Harvard Alumni Saudi Arabia	<b>Board Member</b>	-
Harvard Business School	<b>Member of the MENA &amp; Central Asia Advisory Board</b>	Member of the Global Leadership Circle

**Ziyad Al-Saleh**

**Chairman and Independent Board Member** *(appointed Chairman from 23 February 2022)*

Entity	Position Held	Shareholding / Other Interests
Mayar Foods Company	<b>Board Member</b>	-
Hoshan Company Ltd.	<b>Board Member</b>	-
A.K.AL-Muhaidib & Sons CJSC (AMG Group) Saudi	<b>Board Member</b>	-
Riyadh Cables Group of Companies - CJSC	<b>Board Member</b>	-
Al-Romansiah	<b>Board Member</b>	-
Pioneers Holdings JSC, Egypt	<b>Board Member</b>	-
Zahrawi Medical - UAE	<b>Board Member</b>	-
Yanal Finance Company	<b>Independent Director</b>	-

**Bader Alamoudi**

**Vice Chairman and Non-Executive Board Member**

Entity	Position Held	Shareholding / Other Interests
-	-	-

**Fahad Aldeweesh**  
**CEO and Executive Board Member**

<b>Entity</b>	<b>Position Held</b>	<b>Shareholding / Other Interests</b>
King Faisal School	<b>Board Member</b>	-
The Saudi Stock Exchange	<b>Board Member</b>	-
Aseer Investment Company	<b>Board Member</b>	-

**Tara Lamont**  
**Non-Executive Board Member**

<b>Entity</b>	<b>Position Held</b>	<b>Shareholding / Other Interests</b>
-	-	-

**Khalid Fayeze**  
**Non-Executive Board Member**

<b>Entity</b>	<b>Position Held</b>	<b>Shareholding / Other Interests</b>
-	-	-

## Appendix 1:

### b- Board Members Interests

#### Prince Mohammed Bin Khalid Abdullah Al Faisal Al Saud *(resigned 1 January 2022)* Chairman & Independent Board Member

Interests	Contract name	Amount	Period
Board Member of AlKhozama Management Company	Office lease in Al Faisaliah Tower (688 sqm) with services charge*	1,246,025 SAR/year	5 years from November 1, 2021
Chairman of the Board of Saudi Telecom Company	Telecommunication services	1,074 SAR	Service fee in 2021

\*There are no preferential terms between the parties and the agreements were drafted on arm's length basis.

#### Ziyad Al-Saleh *(appointed Chairman 23 February 2022)* Chairman & Independent Board Member

Interests	Contract name	Amount	Period

## Appendix 2: 2021 Board Meetings Attendance Record

### Attendance Record of 2021 Board Meetings

Name	Position	23/03/2021	09/11/2021
<b>HRH Prince Mohammed Khalid Al Faisal Al Saud</b>	Chairman and Independent Board Member <i>(resigned 1 January 2022)</i>	Yes	Yes
<b>Ziyad Al Saleh</b>	Chairman and Independent Board Member <i>(appointed Chairman of the Board on 23 February 2022)</i>	Yes	Yes
<b>Bader Alamoudi</b>	Vice Chairman and Non-Executive Board Member	Yes	Yes
<b>Tara Lamont</b>	Non-Executive Board Member	Yes	Yes
<b>Khalid Fayez</b>	Non-Executive Board Member <i>(appointed 15 August 2021)</i>	N/A	Yes
<b>Fahad Aldeweesh</b>	CEO and Executive Board Member	Yes	Yes

### Attendance Record of 2021 Nomination and Remuneration Committee

Name	Position	3 May 2021	1 November 2021	13 December 2021
<b>Tara Lamont</b>	Chairman and Non – Executive Member	Yes	Yes	Yes
<b>Bader Alamoudi</b>	Vice Chairman and Non-Executive Board Member	Yes	Yes	Yes
<b>Nasser Almoammar</b>	Member and Secretary	Yes	Yes	Yes

### Attendance Record of 2021 Internal Audit Committee Meetings

Name	Position	17/03/2021	29/06/2021	16/09/2021	08/12/2021
<b>Bader Alamoudi</b>	Chairman	Yes	Yes	Yes	Yes
<b>Khalid Fayeze</b> <i>(Appointed 15 August 2021)</i>	Member	N/A	N/A	Yes	Yes
<b>Fuad Khawaja</b>	Member & Secretary	Yes	Yes	Yes	Yes

### Attendance Record of 2021 Compliance Committee Meetings

Name	Position	21/03/2021	20/06/2021	20/09/2021	08/11/2021
<b>Fahad Aldeweesh</b>	Chairman	Yes	Yes	Yes	Yes
<b>Sufiyan Khot</b>	Member	Yes	Yes	Yes	Yes
<b>Fuad Khawaja</b>	Member	Yes	Yes	Yes	Yes
<b>Wejdan Alfraihi</b>	Member & Secretary	Yes	Yes	Yes	Yes

### Appendix 3: Remuneration and Compensations

Item	Executive Directors <sup>1</sup>	Non-Executive Board Members	Independent Board Members
<b>Wages and salaries</b>	-	-	200,000
<b>Allowances</b>	-	-	-
<b>Periodic and annual remunerations</b>	-	-	-
<b>Incentive plans</b>	-	-	-
<b>Commissions</b>	-	-	-
<b>Any compensations</b>	-	-	-

<sup>1</sup> The CEO is included in the top five Senior Executives. He is also an Executive Director but is not paid any specific fees for this role

<b>other in-kind benefits or reimbursements paid monthly or annually</b>			
<b>Total</b>			200,000

## Remuneration and Compensations Disclosure in SAR

<b>Statement</b>	<b>Top Five Senior executives including the *CEO and CFO</b>
<b>Wages and salaries</b>	5,483,504
<b>Allowances</b>	70,747
<b>Periodic and annual remunerations<sup>2</sup></b>	5,995,446
<b>Incentive plans<sup>3</sup></b>	1,803,048
<b>Commissions</b>	-
<b>Any compensations other in-kind benefits or reimbursements paid monthly or annually</b>	
<b>Total</b>	13,352,745 <sup>4</sup>

<sup>2</sup> This includes annual bonuses (in cash and shares) paid / awarded in January 2022 in respect of the 2021 performance year

<sup>3</sup> This includes deferred compensation from prior years which vested / was paid during 2021 and non-annual payments such as dividend equivalents paid on unvested RSUs during the period, sign-on bonuses, overtime payments, end of service payments and severance payments

<sup>4</sup> Annual average FX as at 31 December 2021 = 3.75 (USD:SAR)

## **Appendix 4: Audited Financial Statement**

**J.P. MORGAN SAUDI ARABIA COMPANY**

**(A Single Shareholder Closed Joint Stock Company)**

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021  
AND INDEPENDENT AUDITOR'S REPORT

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**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**

**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Financial statements**  
**For the year ended December 31, 2021**

	<b>Page</b>
Independent auditor's report	1 - 2
Statement of financial position	3
Statement of income	4
Statement of comprehensive income	5
Statement of changes in equity	6
Statement of cash flows	7
Notes to the financial statements	8 - 35



## *Independent auditor's report to the shareholder of J.P. Morgan Saudi Arabia Company*

### Report on the audit of the financial statements

#### *Our opinion*

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

#### **What we have audited**

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2021;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

#### *Basis for opinion*

We conducted our audit in accordance with the International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

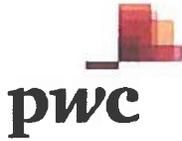
#### *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

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## *Independent auditor's report to the shareholder of J.P. Morgan Saudi Arabia Company (continued)*

### *Auditor's responsibilities for the audit of the financial statements*

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

As part of an audit in accordance with the International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional 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 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 management 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.

**PricewaterhouseCoopers**

Ali H. Al Basri  
License Number 409

March 29, 2022



**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Statement of financial position**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	As at December 31,	
		2021	2020
<b>Assets</b>			
<b>Current assets</b>			
Cash and bank balances	3	183,028	293,985
Short-term deposits with a bank	6	187,730	-
Trade receivables	4.2	15,998	8,866
Prepayments and other receivables	5	6,601	1,444
		<u>393,357</u>	<u>304,295</u>
<b>Non-current assets</b>			
Property and equipment	7	6,138	1,176
Deferred tax asset		1,262	1,200
		<u>7,400</u>	<u>2,376</u>
<b>Total assets</b>		<u>400,757</u>	<u>306,671</u>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	8	12,305	12,652
Accrued expenses and other current liabilities	9	14,630	12,465
Lease liabilities		5,759	775
Provision for income tax	13.2	13,937	-
		<u>46,631</u>	<u>25,892</u>
<b>Non-current liabilities</b>			
Employee end of service benefits ("EOSB")	10	6,372	6,070
		<u>6,372</u>	<u>6,070</u>
<b>Total liabilities</b>		<u>53,003</u>	<u>31,962</u>
<b>Equity</b>			
Share capital	11	93,750	93,750
Statutory reserve	19	27,623	20,359
Re-measurement reserve for EOSB		(119)	(520)
Retained earnings		226,500	161,120
<b>Total equity</b>		<u>347,754</u>	<u>274,709</u>
<b>Total liabilities and equity</b>		<u>400,757</u>	<u>306,671</u>
<b>Commitments and contingencies</b>	18		

The accompanying notes from 1 to 21 form an integral part of these financial statements.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Statement of income**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

		<b>For the year ended December 31,</b>	
	<b>Note</b>	<b>2021</b>	<b>2020</b>
Service fee income, net	4.1.1	<b>110,454</b>	66,436
Brokerage fee, net		<b>23,860</b>	22,184
Income from deposits	4.1.2	<b>2,748</b>	6,433
<b>Operating income</b>		<b>137,062</b>	<b>95,053</b>
<b>Operating expenses</b>			
Salaries and employee related benefits		<b>(28,563)</b>	(23,489)
Other general and administrative expenses	12	<b>(14,465)</b>	(17,270)
Rent and premises related expenses		<b>(289)</b>	(300)
Depreciation	7	<b>(1,087)</b>	(1,104)
<b>Total operating expenses</b>		<b>(44,404)</b>	<b>(42,163)</b>
<b>Total operating income</b>		<b>92,658</b>	52,890
<b>Other expenses</b>			
Exchange expenses		<b>(142)</b>	(190)
		<b>(142)</b>	(190)
<b>Income before income tax charge</b>		<b>92,516</b>	52,700
Income tax charge	13.4	<b>(19,872)</b>	(10,616)
<b>Income for the year</b>		<b>72,644</b>	42,084

The accompanying notes from 1 to 21 form an integral part of these financial statements.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Statement of comprehensive income**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the year ended	
		December 31,	
		2021	2020
<b>Income for the year</b>		72,644	42,084
<b>Other comprehensive income/(loss):</b>			
<i>Items that will not be reclassified subsequently to the statement of income</i>			
- Remeasurement gain/(loss) on EOSB	10	501	(1,651)
- Deferred tax on remeasurements of EOSB		(100)	330
<b>Other comprehensive income/(loss) for the year</b>		401	(1,321)
<b>Total comprehensive income for the year</b>		73,045	40,763

The accompanying notes from 1 to 21 form an integral part of these financial statements.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Statement of changes in equity**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Share capital	Statutory reserve	Re-measurement reserve for EOSB	Retained earnings	Total
<b>January 1, 2020</b>	93,750	16,151	801	123,244	233,946
Income for the year	-	-	-	42,084	42,084
Other comprehensive loss for the year	-	-	(1,321)	-	(1,321)
<b>Total comprehensive (loss) / income for the year</b>	-	-	(1,321)	42,084	40,763
Transfer to a statutory reserve	-	4,208	-	(4,208)	-
<b>December 31, 2020</b>	<b>93,750</b>	<b>20,359</b>	<b>(520)</b>	<b>161,120</b>	<b>274,709</b>
<b>January 1, 2021</b>	<b>93,750</b>	<b>20,359</b>	<b>(520)</b>	<b>161,120</b>	<b>274,709</b>
Income for the year	-	-	-	72,644	72,644
Other comprehensive income for the year	-	-	401	-	401
<b>Total comprehensive income for the year</b>	-	-	401	72,644	73,045
Transfer to a statutory reserve	-	7,264	-	(7,264)	-
<b>December 31, 2021</b>	<b>93,750</b>	<b>27,623</b>	<b>(119)</b>	<b>226,500</b>	<b>347,754</b>

The accompanying notes from 1 to 21 form an integral part of these financial statements.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Statement of cash flows**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

		<u>For the year ended December 31,</u>	
	Note	2021	2020
<b>Cash flow from operating activities</b>			
Income before income tax		92,516	52,700
<u>Adjustments for non-cash charges and other items</u>			
Depreciation	7	1,087	1,104
Provision for EOSB	10	1,500	877
Interest expense on lease liabilities		69	44
<u>Changes in working capital:</u>			
Trade receivables		(7,132)	(1,117)
Prepayments and other receivables excluding prepaid tax		(5,868)	(239)
Investments held at fair value through statement of income ("FVSI")		-	145,261
Accrued expenses and other current liabilities		2,165	613
Trade payables		(347)	11,318
EOSB paid	10	(697)	(276)
Income tax paid during the year	13.2	(5,386)	(21,558)
<b>Net cash generated from operating activities</b>		<u>77,907</u>	<u>188,727</u>
<b>Cash flow from investing activities</b>			
Payment for purchase of property and equipment, net	7	-	(110)
Short-term deposits with a bank	6	(187,730)	-
<b>Net cash utilized in investing activities</b>		<u>(187,730)</u>	<u>(110)</u>
<b>Cash flow from financing activities</b>			
Liabilities held at FVSI		-	(143,896)
Payments for lease liabilities		(1,134)	(1,135)
<b>Net cash utilized in financing activities</b>		<u>(1,134)</u>	<u>(145,031)</u>
<b>Net change in cash and cash equivalents</b>		<u>(110,957)</u>	43,586
Cash and cash equivalents at the beginning of the year		<u>293,985</u>	250,399
<b>Cash and cash equivalents at the end of the year</b>		<u>183,028</u>	293,985
<b>Supplemental non-cash information:</b>			
Re-measurement reserve for employees' EOSB	10	(501)	1,651
Deferred tax on remeasurements of employees' EOSB		100	(330)
ROU assets additions	7	6,049	-
Lease liabilities		5,759	775

The accompanying notes from 1 to 21 form an integral part of these financial statements.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**1 General information**

J.P. Morgan Saudi Arabia Company (the "Company") is a single shareholder Closed Joint Stock Company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration number 1010240801 issued in Riyadh on Dhul Qadah 17, 1428H (corresponding to November 26, 2007), Ministry of Investment of Saudi Arabia ("MISA") license number 2031026532-01 dated Shaban 22, 1428H (corresponding to September 4, 2007) and the Capital Market Authority ("CMA") license No. 12164-37 dated Dhul-Hijaa 26, 1433H (corresponding to November 11, 2012).

The Company was converted from a limited liability company to a single shareholder Closed Joint Stock Company on Shaban 27, 1438H (corresponding to May 23, 2017) which is the date of conversion. Due to the change of the Company's status the name was changed from J.P. Morgan Saudi Arabia Limited to J.P. Morgan Saudi Arabia Company. The Company's financial statements are prepared from January 1 to December 31 of each Gregorian year.

Initially the Company was established to conduct investment banking activities in the field of arranging, advising, custody and dealing as an agent in respect of securities business, but does not deal in margin trading transactions. During 2012, the Company obtained provisional CMA licenses dated Dhul-Hijaa 26, 1433H (corresponding to November 11, 2012) to amend the business activities to conduct dealing as principal and agent, underwriting, arranging, advising and custody. However, there were no business activities executed by the Company with reference to some of these provisional licenses. During 2017, the Company was recognized by the Saudi Stock Exchange (Tadawul) as an Exchange member to perform brokerage activities. The membership was granted following fulfillment of technical and legal requirements laid down by the Tadawul.

**2 Summary of significant accounting policies**

The significant accounting policies adopted in the preparation of these financial statements are set out below.

**2.1 Basis of preparation**

(i) Statement of Compliance

The financial statements have been prepared 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 Chartered and Professional Accountants ("SOCPA").

The accounting policies used in the preparation of these financial statements are applied consistently to all the years presented otherwise stated.

(ii) Basis of measurement

These financial statements have been prepared:

- under the historical cost convention except for:
- fair valuation of instruments held at fair value through statement of income (FVSI)
- Employees' end of service benefits (EOSB) carried at present value using Projected Unit Credit Method.
- using the accrual basis of accounting.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

(iii) New standard effective in current year

The International Accounting Standard Board (IASB) has issued the following amendments to accounting standards, which were effective from January 1, 2021 but do not have any significant impact on the financial statements of the Company.

- (a) Amendments to IFRS 16, 'Leases' – Covid-19 related rent concessions.
- (b) Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2.
- (iv) Accounting standards issued but not yet effective

The International Accounting Standard Board (IASB) has issued following accounting standards and amendments which were effective from periods on or after January 1, 2022. The Company has opted not to early adopt these pronouncements and they are not expected to have a significant impact on the financial statements of the Company.

- IFRS 17 Insurance Contracts.
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current.
- Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework.
- Amendments to IAS 16 Property, Plant and Equipment related to proceeds before intended use.
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets related to Onerous Contracts—Cost of Fulfilling a Contract.
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors related to definition of accounting estimates.
- Annual Improvements to IFRS Standards 2018-2020: The Annual Improvements include amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, and IAS 41 Agriculture.

(v) Foreign currency translations and presentation currency

(a) Reporting currency

These financial statements are presented in Saudi Riyals ("SR") which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Arabian Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income. Such exchange adjustments were not significant for the year ended December 31, 2021 and 2020, respectively.

(vi) Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

There are no significant estimates in the Company's financial statements that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve-month period.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**2.2 Cash and bank balances**

Cash and bank balances include cash 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 bank balances are carried at amortized cost in the statement of financial position.

**2.3 Financial Instruments**

**2.3.1 Classification and measurement of financial assets**

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 income (FVSI)

Equity instruments

Equity instruments are those that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Company subsequently measures all equity investments at FVSI, except where the Company has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to trade. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to the statement of income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Currently, all the equity instruments have been classified as FVSI by the Company.

Debt instruments

Debt instruments if any held are those instruments that meet the definition of a financial liability from the issuer's perspective.

Classification and subsequent measurement of debt instruments depend on:

- The Company's business model for managing the asset; and
- The cash flow characteristics of the asset.

*Business model:* The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVSI.

Factors considered by the Company in determining the business model for a group of assets include:

- past experience on how the cash flows for these assets were collected;
- how the asset's performance is internally evaluated and reported to key management personnel;
- how risks are assessed and managed; and
- how managers are compensated.

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 originated or newly purchased financial assets going forward.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

Securities held for trading, if any, are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVSI.

*SPPI:* Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payment of principal and interest (the "SPPI" test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. profit (or special commission income) includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVSI.

The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

*Amortized cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVSI, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 2.3.2. Profit earned from these financial assets is recognized in the statement of income using the effective commission rate method.

*Fair value through statement of income (FVSI):* If debt instrument's cash flows do not represent solely SPPI or if it is not held within the held to collect or the held to collect and sell business model, or if it is designated at FVSI, then it is measured at FVSI. A gain or loss on a debt investment measured at FVSI, where cashflows do not represents solely SPPI, is recognized in the statement of income, within "Net gain / (loss) on investments mandatorily measured at FVSI", in the period in which it arises. A gain or loss from debt instruments that were designated at fair value or which are held for trading are presented separately from debt investments that are mandatorily measured at FVSI, within "Net gain / (loss) on investments designated at FVSI or held for trading". Special commission income earned from these financial assets is recognized in the statement of income using the effective commission rate method.

*Fair value through other comprehensive income (FVOCI):* Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVSI, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in statement of income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to Statement of Income.

The Company reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Currently, bank balances, short-term deposits with a bank, due from related parties and other receivables are categorized as held at amortised cost.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**2.3.2 Impairment of financial assets**

The Company estimates credit impairment through an allowance for expected credit losses ("ECLs"). ECLs are recognised for financial assets that are measured at amortised cost or at fair value through other comprehensive income ("FVOCI") and for specified lending-related commitments, such as loan commitments and financial guarantee contracts. The measurement of ECLs must reflect:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.

The measurement of ECL also reflects how the Company manages the financial instruments it uses for credit risk purposes such as Traditional Credit Products ("TCP"), debt securities measured at FVOCI, and non-traditional credit products ("Non-TCP"). TCP are wholesale loans and lending-related commitments from extensions of credit to borrowers; debt securities which are debt instruments such as government bonds; whereas Non-TCP are all other debt financial assets measured at amortised cost which include, but are not limited to, reverse repurchase agreements, margin loans, fee receivables, and inter-company receivables or loans.

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

- (i) A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored.
- (ii) If a significant increase in credit risks ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- (iii) If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- (iv) Financial instrument in Stage 1 have their ECL measured at an amount equal to the portion of expected credit losses that result from the 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.
- (v) A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should be consider forward-looking information.
- (vi) Purchase or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

**Impact of staging on measuring expected credit losses**

ECLs are measured using a three-stage model based on changes in credit quality of the financial instrument since it was initially recognised ("initial recognition"):

Stage 1 - performing financial instruments that have not had a significant increase in credit risk since initial recognition;

Stage 2 - performing financial instruments that have experienced a significant increase in credit risk; and

Stage 3 - non-performing financial instruments that have been determined to be credit-impaired.

The financial assets of the Company that are subjected to ECL review include deposits with banks, due from related parties and other assets.

A significant exposure of the Company is held as deposits with J.P. Morgan Chase Bank, N.A, Riyadh Branch which is a Branch of J.P. Morgan Chase Bank, N.A and a local bank licensed and listed in the Saudi stock exchange. Both the Banks have sound credit rating as at the reporting date and therefore the Company considers that it has a low credit risk. The rating of the Banks as at December 31, 2021 and 2020 were no less than Aa3 and A2 respectively as per Moody's and no decline is seen in the credit rating till the reporting date. The ECL is insignificant and therefore no ECL is booked in the financial statements.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

ECL on intercompany fees and other receivables is nil due to the factors mentioned in note 2.3.2.3.

**2.3.2.1 Stages of impairment under IFRS 9**

The impairment approach of IFRS 9 provides a framework for Expected Credit Losses (ECL) where in, the assets have to be segmented into three stages. The three stages reflect the general pattern of credit deterioration of a financial asset. The three stages differ in terms of recognition of expected credit losses and the presentation of interest revenue.

***Stage 1 - Performing financial assets***

Stage 1 assets are assessed based on Company's existing credit risk management standards for acceptable credit quality. Overall, the financial assets falling under this category have the following characteristics at minimum:

- Adequate capacity to meet its contractual cash flow obligations in the near term; and
- Adverse changes in economic and business conditions in the longer term may; but will not necessarily; reduce the ability to fulfil its obligations.

***Stage 2 - Financial Assets with significant increase in credit risk***

Financial instruments that have experienced a significant increase in credit risk ("SICR") since initial recognition for which there is no objective evidence of impairment are included in Stage 2. For Stage 2 instruments, ECL is calculated considering the probability of default over the remaining life of the instrument on a collective basis and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for the credit loss allowance).

The Company assesses for evidence of a SICR by considering whether there has been a change in the risk of a default occurring since the financial instrument was initially recognised.

***Stage 3 - Credit impaired financial assets***

Financial assets classified under this category have exceeded either the objective thresholds set by the Company or have been subjectively considered as obligors which lack a capacity to repay their contractual obligations, on a timely basis.

The Company considers a customer as "Defaulted" when the obligor is unlikely to pay for its credit obligations in full, without recourse by the Company to actions such as realizing security (if held).

Financial instruments are included in Stage 3 when there is objective evidence of impairment at the reporting date. For Stage 3 instruments, ECL is calculated considering the probability of default over the remaining life of each instrument ("Lifetime ECL") on an individual asset basis and interest revenue is calculated on the net carrying amount (that is, net of the allowance for credit losses).

All financial assets, regardless of their category as TCP, Non-TCP or debt security, are considered to be credit-impaired and included in Stage 3 when one or more of the following events that have a detrimental impact on the estimated future cash flows of that financial asset has occurred:

- a) Significant financial difficulty of the issuer or the borrower;
- b) A default or past due event;
- c) The Company or holders of debt securities have granted a concession to the borrower for economic or contractual reasons relating to the borrower's financial difficulty;
- d) It has become probable the borrower will enter bankruptcy or other financial reorganisation;
- e) An active market for that financial asset no longer exists because of the borrower's financial difficulties; or
- f) A financial asset is purchased or originated at a deep discount that reflects a credit loss has been incurred.

The criteria above are consistent with how the Company defines 'default' for internal credit risk management purposes.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**2.3.2.2 Transfer criteria**

**Staging Considerations**

Financial instruments that have not had a significant increase in credit risk (SICR) since initial recognition are included in Stage 1. For these instruments, 12-month expected credit losses are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date.

Financial instruments that have had a SICR since initial recognition but that do not have objective evidence of impairment are included in Stage 2. For these assets, lifetime ECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

IFRS 9 requires that when determining whether the credit risk of a financial instrument has increased significantly, an entity shall consider the change in the risk of a default occurring since initial recognition. IFRS 9 points that credit risk increases significantly before a financial instrument becomes past due or other lagging borrower-specific factors (for example a modification or restructuring) are observed. Consequently, when reasonable and supportable information that is more forward-looking than past due information is available, it must be used to assess changes in credit risk.

The Company under Group policy has developed its staging criteria by using both quantitative and qualitative considerations to determine if a loan has experienced significant increase in credit risk.

For TCP, the Company considers a financial instrument to have experienced a SICR when any of the following quantitative or qualitative criteria have been met:

**Quantitative criteria**

The Company determines whether the probability of a default (“PD”) occurring has changed between a financial instruments initial recognition and the reporting date. If the change in PD exceeds certain relative and absolute thresholds, the instrument has experienced a SICR. The assessment of the PD takes into account reasonable and supportable information, including information about past events, current and future economic conditions.

**Qualitative criteria**

The Company monitors borrowers that may become impaired by including them on its watch list. Obligors that are on the watch list are considered to have experienced a SICR. The Company also monitors changes in internal credit risk ratings (relative to the credit rating on initial recognition) and delinquency triggers to determine if a borrower has experienced a SICR.

Financial instruments that are in Stage 2 are moved to Stage 1 as described below in the period that the quantitative and qualitative criteria for a SICR no longer exist.

The approach for determining whether there has been a SICR for Non-TCP portfolios depends on the type of instrument. For fee receivables arising from contracts with customers [e.g. brokerage fee receivables], the Company applies a provision matrix as a practical expedient for calculating expected credit losses. The matrix provides that in the case of institutional customers, a receivable is considered to have had a SICR (i.e. Stage 2) if it is 90 days past due and credit-impaired (i.e. Stage 3) if it is 180 days past due at which point an ECL for 100% of the amount owned is recognised. In the case of non-institutional customers, a receivable is considered to have had a SICR (i.e. Stage 2) if it is 30 days past due and credit-impaired (i.e. Stage 3) if it is 90 days past due at which point an ECL for 100% of the amount owned is recognized. The Firm has not had significant losses on its fee receivable portfolios and are considered to be immaterial.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

The Company has determined that ECL on all other non-TCP portfolios are immaterial due to: the existence of credit risk mitigants such as the existence of the collateral; the credit quality of the borrower (e.g. investment-grade); and/or the short-term nature of the instrument. Similarly, the Company has determined that these non-TCP portfolios are without SICR (i.e. Stage 1) due to the credit quality of the borrower and/or the short-term nature of the instrument. For non-TCP intercompany transactions, the Company evaluates the counterparty based on the consolidated Firm's resolution and recover plan, tenor of the instrument and any collateral received. The Company has not experienced any losses on non-TCP intercompany transactions. The Company continues to monitor its Non-TCP portfolios to ensure the described framework is appropriate and its exposure to credit risk and ECL on these portfolios are adequately reflected in the allowance for credit losses.

### **2.3.2.3 Expected credit loss measurement**

#### **Incorporation of forward-looking information**

ECL estimates are derived from the Company's historical experience and future forecasted economic conditions. To incorporate forward-looking information into the ECL calculation, the Company develops forecasted economic scenarios.

As mentioned in 2020 Developments, the Company moved from three forward looking scenarios (upside, base and downside) to five forward looking scenarios (base, relative upside, extreme upside, relative downside and extreme downside cases) during the year. Each of these scenarios contains a set of macroeconomic variables that reflect forward-looking economic and financial conditions. Macroeconomic variables include, but are not limited to foreign exchange rates, inflation and GDP per country or country block. Macroeconomic variables for each scenario are projected over a reasonable and supportable forecast period of two years. After the forecast period, the losses revert to historical averages over a one-year transition period.

On a quarterly basis, the five economic scenarios are updated and probability weighted. The Company uses judgment to develop the scenarios and assign probability weightings. The most likely economic scenario in management's view is the base case which would generally be expected to be weighted more heavily than the other two scenarios.

The PD, LGD and EAD models are designed to forecast the credit quality and performance of the obligor based on industry, geography, rating and size of obligors, among other attributes of the portfolio. PD, LGD and EAD models are calibrated based on historical macroeconomic variables and use forecasted macroeconomic scenarios for projecting PD, LGD and EAD.

The Company has determined that ECLs on cash held with banks are immaterial due to low credit risk. In evaluating the lifetime ECL related to receivables from a bank, the Company determined the expected probability of default was extremely remote, and the magnitude of lifetime ECL related to exposures would be negligible as these are regulated and externally rated banking institutions that have significant capital, loss absorbing capacity and liquidity and have strong credit rating. The majority of the deposits held are short term in nature and can be withdrawn overnight.

For inter-company loans and receivables, the Company evaluates the counterparty based on the consolidated Company's resolution and recovery plan, tenor of the loan/receivable, and any collateral received. The Company has not experienced any losses on inter-company loans and receivables.

The Company continues to monitor its portfolios to ensure the described framework is appropriate and its exposure to credit risk and ECLs on these portfolios are adequately reflected in the allowance for credit losses.

For fee receivables arising from contracts with customers (e.g. advisory fee receivables), the Company applies a provision matrix as a practical expedient for calculating expected credit losses.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

*Measurement of ECL:*

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described below.

- **Probability of Default (“PD”):** The PD model estimates the probability of downgrade and default each quarter. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The model considers input variables that are region-, industry- and borrower segment-specific and considers both scenario- and borrower-specific information. PDs are determined at a facility-level based on risk ratings and other characteristics.
- **Exposure at Default (“EAD”):** The EAD model predicts gross exposure upon a borrower’s default as a percentage of the total commitment at the reporting date under a given macroeconomic environment. The model estimates the probability of a change in the utilization, and direction and magnitude of the change. Input variables include exposure and utilization at the reporting date, facility purpose, industry and macro-economic variables (“MEVs”).
- **Loss Given Default (“LGD”):** The LGD model estimates expected losses under given macroeconomic environments on the EAD given the event of default and, taking into account, among other attributes, the mitigating effect of collateral and the time value of money.

The 12-month ECL is calculated by multiplying the 12-month PD, EAD and LGD. Lifetime ECL is calculated using the lifetime PD instead.

### **2.3.3 Financial liabilities**

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

Subsequently, all commission and non-commission bearing financial liabilities other than those held at FVSI are measured at amortized cost. Amortized cost is calculated by considering any discount or premium on settlement.

### **2.3.4 Fair valuation of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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.

**2.3.5 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.

**2.4 Property and equipment**

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the expenditure that is directly attributable to the acquisition of the items and borrowing cost (where applicable). All other repair and maintenance costs are recognized in the statement of income as incurred.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will follow to the entity and the cost of that item can be measured reliably.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the asset as follows:

	<b>Number of years</b>
Furniture, fixtures and office equipment	5-10
Computer equipment	3

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 income when the asset is derecognized.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**2.5 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 (CGU) fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized 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 recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the statement of income.

**2.6 Accrued expenses and other liabilities**

Liabilities are recognized for amounts to be paid for goods or services received, whether or not billed to the Company. These are carried at amortised cost.

**2.7 Provisions**

Provisions, if any, are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

**2.8 Taxes**

The Company is subject to income tax in accordance with the regulations of the Zakat, Tax and Customs Authority (the "ZATCA"). Income tax is charged to the statement of income. Additional amount payable, if any, at the finalization of final assessment are accounted for when such amount are determined.

Income tax based on the applicable income tax rate is adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Deferred income tax is provided in full, if material, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Company also withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

**Value added tax (VAT)**

Output VAT related to revenue is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and a liability. Where provision has been made for ECL of receivables, the impairment loss is recorded for the gross amount of the receivable, including VAT.

**2.9 Employees' end of service benefits (EOSB)**

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 plans 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 statement of income while unwinding of the liability at discount rates used are recorded in profit or loss.

Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in the other comprehensive income.

The employees' end of service benefits provision is made based on an actuarial valuation of the Company's liability under the Saudi Arabian Labor Law.

In accordance with the provisions of IAS 19 "Employee benefits", management carries out an exercise to assess the present value of its obligations, using the projected unit credit method. Under this method an assessment is made of the employees' expected service life with the Company and expected salary at the date of leaving the service.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**2.10 Revenue**

The Company recognizes revenue under IFRS 15 using the following five steps model:

Step 1: Identify the contract with customer	A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
Step 2: Identify the performance obligations	A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
Step 3: Determine the transaction price	The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
Step 4: Allocate the transaction price	For a contract that has more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.
Step 5: Recognize revenue	The Company recognizes revenue (or as) it satisfies a performance obligation by transferring a promised good or service to the customer under a contract.

Based on the above five steps the revenue recognition policies for the various revenue stream is as follow:

**Fees and commissions** are generally recognized on an accrual basis when the service has been provided. Fees and commission arising from negotiating, or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities businesses are recognized on completion of the underlying transaction. Investment banking activities' service fees are recognized based on the applicable client service contracts and agreements with other affiliated JPMorgan Chase & Co. entities.

**Brokerage income** is recognized when the related transactions are executed by the customers at the price agreed in the contract with the customers, net of discounts and rebates. The performance obligation of the Company is satisfied when the customer carries out the transaction, which triggers immediate recognition of the revenue, as the Company will have no further commitments.

**Advisory and investment banking services revenue** is recognised when services are determined as complete in accordance with the underlying agreement, agreed with the customer and invoiced, as generally set forth under the terms of the engagement.

**Revenue recognition of retainer fees** is recognized over a period of time and it is generally linked to the timing of performance obligation (i.e. monthly, quarterly, etc.). Success fees are recognized upon the fulfillment of performance obligations. For example, either on the satisfaction of financial advisory services or completion of underwriting agreement.

**Underwriting fees** are recognized when the Company has rendered all services to the issuer and is entitled to collect the fee from the issuer with no contingencies associated with the fees. Underwriting revenues are presented net of transaction-related expenses.

**Custody fee** is recognized over the contractual servicing period.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**2.11 Accounting for leases**

**Company as a lessee**

Leases are recognised as a right-of-use asset and a corresponding liability, at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis.

**Lease liabilities**

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Generally, the Company uses the incremental borrowing rate as the discount rate.

Lease payments included in the measurement of lease liabilities comprise the following:

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

Subsequently, the lease liabilities are measure at amortised cost using the effective interest rate method. They are re-measured when there is a change in future lease payments arising from a change in rate, or if Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liabilities are re-measured in this way, a corresponding comprehensive income adjustment is made to the carrying amount of the right-of-use asset, or is recorded in statement of comprehensive income if the carrying amount of right-of-use asset reduced to zero.

**Right-of-Use Asset**

The Company measures the right-of-use asset at cost, comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Refundable security deposits are not included in the initial measurement of a right-of-use asset. However, the difference between the nominal amount of the refundable security deposits and its fair value at the commencement of the lease represent, an additional lease payment which is prepaid and accordingly added to the initial carrying amount of the right-of-use asset and released to the statement of comprehensive income over the lease term as part of the depreciation of those assets.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In addition the right-to-use assets is periodically reduced by impairment losses, if any, and adjusted for certain re-measurement of lease liabilities.

**Lease term**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**Short-term leases and leases of low-value assets:**

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.”

**2.12 Expenses**

Expenses are measured and recognized as a period cost at the time when they are incurred. Expenses related to more than one financial period are allocated over such periods proportionately. Salaries and other employee related expenses are those which specifically relate to employee costs. All other expenses other than employees' costs, financial charges and allowance for impairment are classified as general and administrative expenses.

**2.13 Statutory reserve**

As required by Saudi Arabian Regulations for Companies, 10% of the net income for the year is transferred to a statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution to the Company's Shareholder.

**2.14 Assets held in trust or in a fiduciary capacity and Clients' cash accounts**

Assets held in trust or in a fiduciary capacity by the Company are not treated as assets of the Company and accordingly are treated as off-balance sheet items in these financial statements.

**2.15 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.

**2.16 Fair value**

Fair value is the amount for which an asset could be exchanged, or a liability could be settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

**3 Cash and bank balances**

The Company has an arrangement with a local bank to settle the brokerage transactions with Tadawul. The bank has given a guarantee to Tadawul to settle all the transactions entered into by the Company.

On the request of the bank, the Company submitted an order note and counter guarantee to the bank agreeing not to perform any transactions exceeding the available limit agreed with the bank. As at December 31, 2021, the Company has maintained sufficient cash balances with the bank.

**4 Related party matters**

In the ordinary course of its activities, the Company transacts business with its related parties. Related parties include J.P. Morgan Chase Bank, N.A. including foreign branches and affiliated entities; the Board of Directors; and key management personnel. Key management personnel are those persons, including Non-executive Director, having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The transactions with related parties are carried out on mutually agreed terms approved by the management of the Company.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**4.1 Related party transactions**

Significant transactions with related parties in the ordinary course of business are summarized below:

	<b>2021</b>	<b>2020</b>
<b><u>4.1.1 Service fee income attributions from:</u></b>		
J.P. Morgan Securities PLC	45,453	28,905
J.P. Morgan Chase Bank, N.A.- London Branch	26,550	22,768
J.P. Morgan Ventures Energy Company	4,025	1,866
J.P. Morgan Chase Bank, N.A.- Dubai Branch	2,585	2,172
J.P. Morgan Chase Bank Luxembourg S.A.	2,380	1,893
J.P. Morgan Chase Bank, N.A.	73	325
J.P. Morgan Chase Bank, N.A.- Jersey Branch	50	-
J.P. Morgan Securities plc - Paris Branch	-	780
	<b>81,116</b>	<b>58,709</b>
<b><u>4.1.2 Income from deposits</u></b>		
J.P. Morgan Chase Bank, N.A.- Riyadh Branch	2,518	6,433
	<b>2021</b>	<b>2020</b>
<b><u>4.1.3 Service fee income attributions to:</u></b>		
J.P. Morgan Securities PLC	31,773	7,244
J.P. Morgan Chase Bank, N.A.- Dubai Branch	6,787	917
	<b>38,560</b>	<b>8,161</b>
Remuneration to key management personnel	<b>11,550</b>	<b>8,765</b>

**4.2 Related party balances**

Significant balances arising from the above transactions with related parties are as follows:

<b>Due from related parties:</b>		
	<b>2021</b>	<b>2020</b>
J.P. Morgan Securities PLC	7,537	4,591
J.P. Morgan Chase Bank, N.A. - London Branch	7,080	2,481
J.P. Morgan Ventures Energy Company	687	212
J.P. Morgan Chase Bank Luxembourg S.A.	338	160
J.P. Morgan Chase Bank, N.A. - Riyadh Branch	327	263
J.P. Morgan Chase Bank, N.A.	17	71
J.P. Morgan Chase Bank, N.A. - Jersey Branch	12	-
J.P. Morgan Securities plc - Paris Branch	-	897
J.P. Morgan Chase Bank, N.A. - Dubai Branch	-	191
	<b>15,998</b>	<b>8,866</b>
<b>Due to related parties:</b>		
	<b>2021</b>	<b>2020</b>
J.P. Morgan Securities PLC	6,434	9,293
J.P. Morgan Chase Bank, N.A. - Riyadh Branch	405	-
J.P. Morgan Chase Bank, N.A.	210	51
J.P. Morgan Chase Bank, N.A. - Dubai Branch	-	917
J.P. Morgan Chase Bank, N.A. - London Branch	-	308
	<b>7,049</b>	<b>10,569</b>

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**5 Prepayments and other receivables**

	Note	2021	2020
Other receivables		6,436	673
Prepaid expenses		165	60
Prepaid tax	13.2	-	711
		<u>6,601</u>	<u>1,444</u>

**6 Short-term deposits with a bank**

On June 23, 2021, the Company placed USD 49,999,990 with a local bank with a commission rate of 0.23%. The short-term deposit will mature on June 23, 2022.

	2021	2020
Short term deposits with a bank	<u>187,730</u>	<u>-</u>

**7 Property and equipment**

	Right-of-Use Asset	Furniture, fixtures and office equipment	Computer equipment	Total
<b>Cost</b>				
<b>January 1, 2021</b>	3,127	558	40	3,725
Additions	6,049	-	-	6,049
Disposals	-	-	-	-
<b>December 31, 2021</b>	<u>9,176</u>	<u>558</u>	<u>40</u>	<u>9,774</u>
<b>Accumulated depreciation</b>				
<b>January 1, 2021</b>	2,018	491	40	2,549
Charge for the year	1,053	34	-	1,087
Disposals	-	-	-	-
<b>December 31, 2021</b>	<u>3,071</u>	<u>525</u>	<u>40</u>	<u>3,636</u>
<b>Net book value as of December 31, 2021</b>	<u>6,105</u>	<u>33</u>	<u>-</u>	<u>6,138</u>

	Right-of-Use Asset	Furniture, fixtures and office equipment	Computer equipment	Total
<b>Cost</b>				
<b>January 1, 2020</b>	3,127	448	40	3,615
Additions	-	110	-	110
Disposals	-	-	-	-
<b>December 31, 2020</b>	<u>3,127</u>	<u>558</u>	<u>40</u>	<u>3,725</u>
<b>Accumulated depreciation</b>				
<b>January 1, 2020</b>	978	427	40	1,445
Charge for the year	1,040	64	-	1,104
Disposals	-	-	-	-
<b>December 31, 2020</b>	<u>2,018</u>	<u>491</u>	<u>40</u>	<u>2,549</u>
<b>Net book value as of December 31, 2020</b>	<u>1,109</u>	<u>67</u>	<u>-</u>	<u>1,176</u>

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**8 Trade payables**

	Note	2021	2020
Due to related parties	4.2	7,049	10,569
Other payables		<u>5,256</u>	<u>2,083</u>
		<b>12,305</b>	<b>12,652</b>

**9 Accrued expenses and other current liabilities**

	2021	2020
Employees' benefits	6,270	4,258
Income tax payable - ZATCA Assessment	4,338	4,338
VAT payable	2,660	1,365
Accrued expense	994	1,500
Accrued professional fee	365	285
GOSI	-	132
Other	<u>3</u>	<u>587</u>
	<b>14,630</b>	<b>12,465</b>

**10 Employee end of service benefits**

	2021	2020
Balance at the beginning of the year	6,070	3,818
Provided during the year	1,500	877
Remeasurements loss	(501)	1,651
Payments and transfers made during the year	<u>(697)</u>	<u>(276)</u>
Balance as at December 31	<b>6,372</b>	<b>6,070</b>

The Company operates a defined benefit plan in line with the Labor Law requirements in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labor Law of the Kingdom of Saudi Arabia. Employees' end-of-service benefit plans are unfunded plans and the benefit payment obligation are met when they fall due upon termination of employment.

**Amounts recognized in the statement of income and comprehensive income**

The amounts recognized in the statement of income and comprehensive income related to employee benefit obligations are as follows:

	December 31, 2021	December 31, 2020
Current service cost	1,328	752
Interest expense	<u>172</u>	<u>125</u>
<b>Total amount recognized in profit or loss</b>	<b>1500</b>	<b>877</b>
<b>Remeasurements</b>		
Gain from change in financial assumptions	-	337
Gain from change in demographic assumptions	-	215
Experience (losses)/gains	<u>(501)</u>	<u>1,099</u>
<b>Total amount recognized in other comprehensive income</b>	<b>(501)</b>	<b>1,651</b>

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**Principal actuarial assumptions**

The following range of significant actuarial assumptions was used by the Company for the valuation of post-employment benefit liability:

	<b>2021</b>	<b>2020</b>
Valuation discount rate	<b>3%</b>	<b>3%</b>
Expected rate of increase in salary level across different age bands	<b>5%</b>	<b>5%</b>

**Sensitivity analysis for actuarial assumptions**

	<b>Change in assumption</b>		<b>Impact on value of employee benefit obligations (SAR'000)</b>	
	<b>Increase in assumption</b>	<b>Decrease in assumption</b>	<b>Increase in assumption</b>	<b>Decrease in assumption</b>
<b>As at December 31, 2021</b>				
Discount rate	<b>1%</b>	<b>1%</b>	<b>5,769</b>	<b>7,039</b>
Salary growth rate	<b>1%</b>	<b>1%</b>	<b>7,039</b>	<b>5,767</b>
<b>As at December 31, 2020</b>				
Discount rate	<b>1%</b>	<b>1%</b>	<b>(5,575)</b>	<b>6,606</b>
Salary growth rate	<b>1%</b>	<b>1%</b>	<b>6,606</b>	<b>(5,575)</b>

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

**11 Share capital**

The share capital of the Company consists of 9,375,000 shares with a par value of Saudi Riyals 10 per share distributed as follows:

<b>Shareholder</b>	<b>Country of origin</b>	<b>Percentage</b>	<b>2021</b>	<b>2020</b>
J.P. Morgan International Finance Limited	USA	100%	<b>93,750</b>	93,750

**12 Other general and administrative expenses**

	<b>2021</b>	<b>2020</b>
Professional services	<b>6,596</b>	4,904
Agent bank charges	<b>2,536</b>	4,992
Outsourcing services	<b>2,485</b>	4,059
Other	<b>1,910</b>	1,296
Technology and communication	<b>593</b>	880
Travel and entertainment	<b>345</b>	803
Income Tax - ZATCA Assessment	<b>-</b>	<b>336</b>
	<b>14,465</b>	<b>17,270</b>

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**13 Provision for income tax**

**13.1 Calculation of taxable income and income tax charge**

The following are the significant components of income tax base of the Company for the year ended December 31:

	<b>2021</b>	<b>2020</b>
Income before income tax	<b>92,516</b>	52,700
Adjustments:		
Depreciation differences	<b>12</b>	46
Employee termination benefits	<b>803</b>	602
Others	<b>6,840</b>	507
Net adjusted income for the year	<b>100,171</b>	53,855
Less: Adjusted loss brought forward, restricted to 25%	-	-
Tax base for the year	<b>100,171</b>	<b>53,855</b>
<b>Income tax charge at 20%</b>	<b>20,034</b>	10,771

**13.2 Provision for income tax**

The movement in the provision for income tax for the years ended December 31 is as follows:

**Provision for income tax**

	<b>2021</b>	<b>2020</b>
Balance at beginning of the year	<b>(711)</b>	10,076
Charged during the year	<b>20,034</b>	10,771
Payments made during the year	<b>(5,386)</b>	(21,558)
<b>Balance at the end of the year</b>	<b>13,937</b>	(711)

**13.3 Deferred tax asset**

Deferred tax asset as at December 31, 2021 relates to the following:

	<b>2021</b>	<b>2020</b>
Employee benefits obligations (13.3.1)	<b>1,274</b>	1,214
Lease liability	<b>1,152</b>	155
Exchange loss	<b>28</b>	38
Property and equipment and right of use asset	<b>(1,192)</b>	(207)
<b>Deferred tax asset, net</b>	<b>1,262</b>	1,200

**13.3.1** Deferred tax amount to Saudi Riyals 0.1 million pertaining to the remeasurement of EOSB gain is recognized in statement of comprehensive income.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**13.4 Income tax charge and deferred tax (reversal) for the year**

Income tax and deferred tax charge / (reversal) of the year is as follows:

	<b>2021</b>	<b>2020</b>
Income tax charge – current	<b>20,034</b>	10,771
Income tax charge – deferred	<b>(162)</b>	(155)
<b>Total tax charge, net</b>	<b>19,872</b>	10,616

The deferred tax liability on remeasurements of post-employment benefit obligations amounting to Saudi Riyals 0.1 million is added back to deferred tax reversal in statement of income and charged to other comprehensive income.

**13.5 Status of final assessment**

Zakat, Tax and Customs Authority (“ZATCA”) had amended their initial assessment for the years 2008 to 2013 for which an appeal had been filed with the General Secretariat of Tax Committees (GSTC). In light of the initiative issued by ZATCA in accordance with the Ministry of Finance Resolution No. 2303 of 6/7/1442 AH, the Company has settled the principal income tax amount of the assessment for the aforementioned years amounting to SR 2,823,860. Subsequent to the year end, ZATCA has confirmed that the delay fines have been waived.

Further assessments for the year 2014 to 2019 are yet to be raised by ZATCA. Therefore, currently, a reasonable estimation of the ultimate additional Income tax and withholding tax liabilities, if any, cannot be reliably determined.

The Company has filed its tax returns with ZATCA for the years up to December 31, 2020; however, the final tax assessment has not yet been obtained as of the date of these financial statements.

**14 Financial instrument fair value**

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 in the principal or in its absence, the most advantageous market to which the company has access at that date. The fair value of liability reflects its non-performance risk.

Management regularly reviews significant observable inputs and valuation adjustments. If third party information such as broker quotes or pricing services is used to measure fair values, then management assesses the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS that are endorsed in the Kingdom of Saudi Arabia, including the level in the fair value hierarchy in which such valuations should be classified.

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

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices / Net Asset Value or dealer quotes for similar instruments;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments (level 3).

	Total	Fair values			Total
		Level 1	Level 2	Level 3	
<b>As at December 31, 2021</b>					
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents	183,028	-	-	183,028	183,028
Trade receivables and other receivables	22,599	-	-	22,599	22,599
Short-term deposits with a bank	187,730	-	-	187,730	187,730
	<b>393,357</b>	<b>-</b>	<b>-</b>	<b>393,357</b>	<b>393,357</b>
<b>Financial liabilities not measured at fair value</b>					
Trade payables	12,305	-	-	12,305	12,305
Accrued and other current liabilities	14,630	-	-	14,630	14,630
Lease liabilities	5,759	-	-	5,759	5,759
	<b>32,694</b>	<b>-</b>	<b>-</b>	<b>32,694</b>	<b>32,694</b>
<b>As at December 31, 2020</b>					
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents	293,985	-	-	293,985	293,985
Trade receivables and other receivables	10,310	-	-	10,310	10,310
Short-term deposits with a bank	-	-	-	-	-
	<b>304,295</b>	<b>-</b>	<b>-</b>	<b>304,295</b>	<b>304,295</b>
<b>Financial liabilities not measured at fair value</b>					
Trade payables	12,652	-	-	12,652	12,652
Accrued and other current liabilities	12,465	-	-	12,465	12,465
Lease liabilities	775	-	-	775	775
	<b>25,892</b>	<b>-</b>	<b>-</b>	<b>25,892</b>	<b>25,892</b>

The fair values of financial instruments not measured at fair value are not significantly different from the carrying values included in the financial statements. The fair values of cash and bank balances and accounts receivable and other assets which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of financial instrument. An active market for these instruments is not available and the Company intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**14.1 Fair valuation techniques**

The following tables show the valuation techniques used in measuring Level 3 fair values.

Type	Valuation techniques
Financial assets at fair value through statement of income	Valuation is based on quoted prices on the local exchange
Inter-relationship between significant observable inputs and fair value measurement.	The estimated fair value would increase (decrease) if there is a change in the inputs used for valuation as discussed above.

**14.2 Transfers between level 1 & 2**

There have been no transfers between Level 1 and Level 2 during the reporting periods.

**15 Financial instruments and risk management**

Effective risk management is of primary importance to the Company. Risks include market risk (primarily foreign exchange risk, price risk and commission rate risk), credit risk, liquidity risk, fair value risk and operational risk. The Company ensures that it is conservatively capitalized relative to its risk levels, as well as external requirements and benchmarks.

Financial instruments carried on the balance sheet include cash and bank balances, investments held at FVSI, due from related parties and other receivables, due to related parties, financial liabilities at FVSI, accrued expenses and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

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

**15.1 Market risk**

Market risk is the risk associated with the effect of changes in market factors such as interest and foreign exchange rates, equity and commodity prices, credit spreads or implied volatilities, on the value of assets and liabilities held for both the short and long term.

*a) Foreign exchange risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's foreign exchange risk arises from non-SAR positions. The non-SAR open currency positions are primarily in USD.

*b) Commission rate risk including interest 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 positions and cash flows. The Company's long term borrowings in the form of equity linked notes were not referenced to interest rates. The Company transferred the underlying equities previously issued as equity linked notes to the holders and discontinued issuing new equity linked notes during the year 2020.

The Company's interest rate risk is minimal due to the short-term overnight nature of deposits held with banks.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

c) *Equity price risk*

Equity 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.

As at December 31, 2021, the Company does not have any financial assets or liabilities designated as at FV. The Company would have been exposed to equity market risk in case of rejected trades under the Independent Custody Model Equities Brokerage business (ICM), the probability of which is deemed to be low. The Company has a daily report to monitor equity and FX delta from rejected trades under the ICM and has also implemented some limits to reduce potential market risk from such rejected trades.

**15.2 Credit risk**

Credit risk is the risk associated with the default or change in credit profile of a client, counterparty or customer. The Company's credit risk arises from deposits with banks and other assets. Cash and deposits are placed with a branch of Parent Bank in Saudi Arabia and local investment grade bank. Other assets are mostly having low credit risk and the impact of ECL is not considered significant.

	<b>2021</b>	<b>2020</b>
Cash and cash equivalents (Note 3)	<b>183,028</b>	293,985
Other receivables excluding prepaid (Note 4.2, 4)	<b>22,434</b>	9,539
Short-term deposits with a bank (Note 5)	<b>187,730</b>	-
	<b>393,192</b>	<b>303,524</b>

**Credit risk measurement**

The Company has most of its exposure based in the Kingdom of Saudi Arabia. The assessment of credit risk of a financial assets carried at amortized cost entails further estimations as to the likelihood of defaults occurring, of the association loss ratios and of default correlations between customers.

**Credit quality analysis**

The following table sets out the credit analysis for financial assets as at December 31, 2021.

	<b>Investment grade</b>	<b>Non-investment grade</b>	<b>Unrated</b>	<b>Total</b>
<b>Financial assets</b>				
Cash and cash equivalents	<b>183,028</b>	-	-	<b>183,028</b>
Short-term deposits with a bank	<b>187,730</b>	-	-	<b>187,730</b>
Trade and other receivables	<b>21,043</b>	-	<b>1,391</b>	<b>22,434</b>
<b>Total</b>	<b>391,801</b>	-	<b>1,391</b>	<b>393,192</b>

The following table sets out the credit analysis for financial assets as at December 31, 2020.

	<b>Investment grade</b>	<b>Non-investment grade</b>	<b>Unrated</b>	<b>Total</b>
<b>Financial assets</b>				
Cash and cash equivalents	293,985	-	-	293,985
Trade and other receivables	8,866	-	673	9,539
<b>Total</b>	<b>302,851</b>	-	<b>673</b>	<b>303,524</b>

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**ECL - Significant increase in credit risk (SICR)**

**Impact of COVID-19 pandemic**

The COVID-19 pandemic has stressed MEVs to degrees not experienced in recent history, which creates additional challenges in the use of modelled credit loss estimates and increases the reliance on management judgement. The estimated impact of COVID-19 is incorporated into ECL through MEVs and forward-looking scenarios, which generally resulted in more loans exhibiting significant increase in credit risk since initial recognition, and as a result classified as Stage 2. As Stage 2 loans have ECL based on a probability of default (PD) over the lifetime of the loan (as opposed to 12 months in Stage 1), the Company's overall ECL increased.

In 2020, the Company enhanced its statistical model methodology used for collective assessment to better estimate expected credit losses which included expansion of forecasting during the reasonable and supportable period from using three forward looking scenarios (central, adverse and upside) to five forward looking scenarios (central, relative upside, extreme upside, relative adverse and extreme adverse).

**Loss allowance on financial assets**

	<b>December 31, 2021</b>			<b>Total</b>
	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	
Carrying amount	393,192	-	-	393,192
ECL	-	-	-	-
	<b>393,192</b>	<b>-</b>	<b>-</b>	<b>393,192</b>

	<b>December 31, 2020</b>			<b>Total</b>
	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	
Carrying amount	303,524	-	-	303,524
ECL	-	-	-	-
	<b>303,524</b>	<b>-</b>	<b>-</b>	<b>303,524</b>

**15.3 Liquidity risk**

Liquidity risk is the risk that the firm will be unable to meet its contractual and contingent obligations as they arise or that it does not have the appropriate amount, composition and tenor of funding and liquidity to support its assets and liabilities.

The Company's assets are mainly liquid overnight deposits or nostro accounts at banks. The Company has taken no loans and has other liabilities of Saudi Riyals 53 million as December 31, 2021.

The Company's liquidity management process includes the following:

- a) Day-to-day funding, managed by Finance department and individual business lines to ensure that requirements can be met and this includes replenishment of funds as they mature or are invested;
- b) Monitoring balance sheet liquidity ratios against internal and regulatory requirements.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

The following analyses the Company's financial liabilities based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due equal their carrying balances. Borrowings are perfectly correlated to equity investments and hence the impact of discounting is not significant.

	<b>Due within 1 year</b>	<b>Due after 1 year</b>
<b>2021</b>		
Accrued expenses and other liabilities excluding income tax payable, VAT payable and GOSI	7,632	-
Trade payable	12,305	-
<b>Total</b>	<b>19,937</b>	<b>-</b>
	<b>Due within 1 year</b>	<b>Due after 1 year</b>
<b>2020</b>		
Accrued expenses and other liabilities excluding income tax payable, VAT payable and GOSI	6,630	-
Trade payable	12,652	-
<b>Total</b>	<b>19,282</b>	<b>-</b>

#### **15.4 Operational risk**

Operational risk is the risk associated with an adverse outcome resulting from inadequate or failed internal processes or systems; human factors; or external events impacting the firm's processes or systems; it includes compliance, conduct, legal and estimations and model risk. Operational risk is inherent in the Firm's activities and can manifest itself in various ways, including fraudulent acts, business interruptions, cybersecurity attacks, inappropriate employee behavior, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their agreements. Operational Risk Management attempts to manage operational risk at appropriate levels in light of the Company's financial position, the characteristics of its businesses, and the markets and regulatory environments in which it operates.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**16 Regulatory capital requirements and capital adequacy ratio**

In accordance with Article 74(b) of the Prudential Rules issued by CMA (the Rules), given below are the disclosures of the capital base, minimum capital requirement and total capital adequacy ratio as at December 31:

	<b>2021</b>	<b>2020</b>
<b>Capital Base:</b>		
Tier 1 Capital	<b>346,492</b>	273,509
<b>Minimum Capital Requirement:</b>		
Market Risk	<b>6,202</b>	4,700
Credit Risk	<b>22,451</b>	13,056
Operational Risk	<b>17,133</b>	13,529
Total Minimum Capital Required	<b>45,786</b>	31,285
<b>Capital Adequacy Ratio:</b>		
Total Capital Ratio (time)	<b>7.57</b>	8.74
Surplus in Capital	<b>300,706</b>	242,224

- a) The above information has been extracted from the annual Capital Adequacy Model for December 31, 2021 to be submitted to CMA and December 31, 2020 as submitted to CMA.
- b) The capital base consists of Tier 1 capital as per Article 4 of the Rules. The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in Part 3 of the Rules.
- c) The Company is required to maintain adequate capital as specified in the Rules. The capital adequacy ratio shall not be less than 1.
- d) The Company is required to disclose the prescribed information as required under Pillar III of the Rules on the Company website ([www.jporgansaudi Arabia.com](http://www.jporgansaudi Arabia.com)), however these are not subject to review or audit by the external auditors of the Company.

**17 Fiduciary assets**

**Clients' money accounts**

As at December 31, 2021, the Company is holding clients' money accounts, with the bank, amounting to Saudi Riyals 1,831 million (2020: Saudi Riyals 1,780 million), to be used for investments upon client discretion. Consistent with the Company's accounting policy, such balances are not included in the Company's financial statements.

**18 Commitments and contingencies**

The Company has not been given, in the normal course of business, and has not committed any guarantees during the year and has no outstanding guarantees from prior years. As at December 31, 2021, the Company has issued order note to cover the settlement limit facility offered by the agent bank.

**J.P. MORGAN SAUDI ARABIA COMPANY**  
**(A Single Shareholder Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2021**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**19 Statutory reserve**

In accordance with Saudi Arabian Regulations for Companies and the Company's By-laws, the Company sets aside 10% of its net income each year as statutory reserve until such reserve equals to 30% of the share capital. This reserve is currently not available for distribution to the shareholders of the Company.

**20 Impact of COVID-19**

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are experiencing issues due to identification of multiple new variants of this infections, despite having previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

Management believes that there is a minimal impact on the Company's business operations and continue to follow the Government's policies and advice. Moreover, the Company will do utmost to continue operations in the best and safest way possible without jeopardising the health and safety of its employees.

**21 Approval of the financial statements**

These financial statements were authorized for issuance by the Board of Directors on March 22, 2022.