

2016 annual report

# 2016 Annual Report Arab National Investment Company (ANB Invest) A Closed Joint Stock Company March 28, 2017

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# **Chairman's Message**

I am pleased to present the fourth annual report of the Arab National Investment Company a closed Joint Stock Company ("ANB Invest" or "ANBI" or the "Company") for the year ended December 31, 2016.

The decline in oil prices which started in the last quarter of 2015, led to a continuous decline in TASI and consequently in the value of traded shares up to the end of the first quarter of 2016. Due to such a negative impact, the Company's net operating income for 2016 dropped by SR 33.923 million SAR compared to previous year.

In spite of such a negative impact on the revenues from brokerage business, during 2016, ANB Invest managed to generate significant revenues by acting as Joint underwriters for Right issues offering of two Companies, increase the AUM's from equity and money market DPM's, launch a Shariah compliant local IPO equity fund and launch a private placement real estate fund.

Oil income has traditionally accounted for vast majority of government revenues, in 2016 the Kingdom unveiled plans for what will be, if successfully carried out, the most significant reform of the national economy in the country's eight decades of existence. Its principal blueprint, the Vision 2030 document published in April 2016, calls for a major shift in the way the Kingdom's economy operates, moving from a system of government-led growth and centralized planning to a more open market framework, where the private sector takes a leading role in economic expansion. Boosting non-oil revenue, promoting small and medium sized enterprises, diversifying exports and making the Saudi workforce more productive are one of the key objectives. In June 2016 the government followed the Vision 2030 with the publication of the National Transformation Programme (NTP), which establishes the means by which the Kingdom will meet the objectives established in its development blueprint.

While subdued oil prices have had a significant effect on exchanges across the region, Saudi Stock Exchange (Tadawul) has initiated a road map with its bold strategy of reforms. In 2016 the exchange authority and the market regulator are preparing for a new stage of development, which will see the Tadawul Market align further with leading emerging market indices.

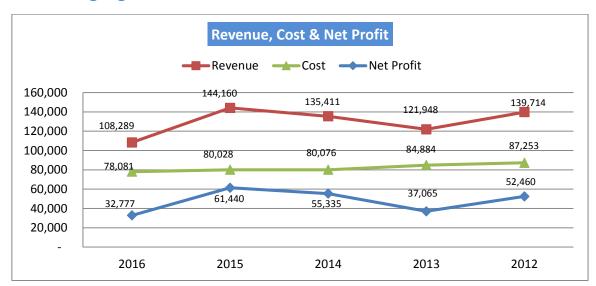
As part of the reforms, the CMA and Tadawul have announced new initiatives such as the introduction of T+2 settlement cycle for trades, covered short-selling and the launch of a secondary market (more relaxed listing and reporting requirements) called NUMU for small & medium sized enterprises. As required by the Regulators in 2016, Bank's margining financing product will be transferred to the Company at the start of second quarter of 2017. The impact of such changes on the Company will be significant in the year 2017 with respect to technology enhancement, hiring of additional resources, training and development of current work force and changes to Company license and By-laws.

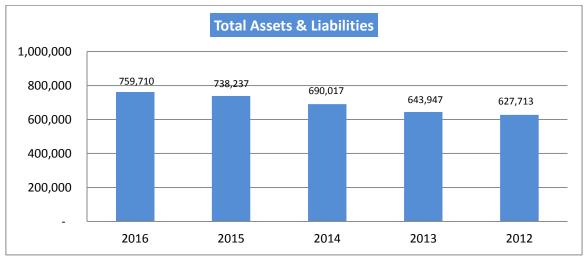
On behalf of the board, I wish to thank all of our employees and our colleagues for their precious contribution in 2016 and looking forward with new reforms in 2017.

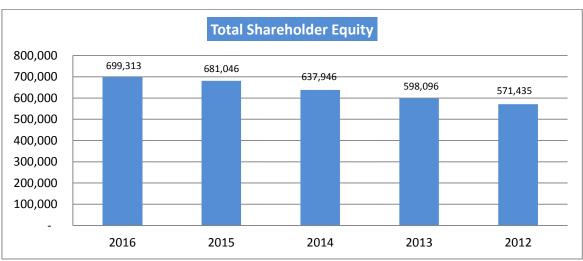
Raied A. Al Seif Chairman



# I. Financial Highlights of ANB Invest from 2012 to 2016







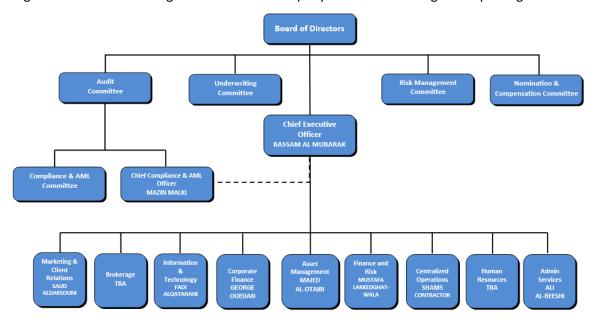


# II. Description of the Activities of ANB Invest

Operating under a license number 07072-37 granted by the Capital Market Authority ("CMA"), ANB Invest provides Brokerage, Asset Management, Corporate Finance and Custody services to its customers. Under the terms of its license, the Company was segregated from its parent Company Arab National Bank ("ANB" or "Bank") on January 12, 2008. The Company is a wholly-owned subsidiary of ANB. Its head office is located in Riyadh and operates 13 investment centers across the Kingdom of Saudi Arabia.

#### (a) Organizational Structure

The following chart illustrates the organization of the Company in terms of managerial reporting:



#### (b) Brokerage – Investment Accounts

Brokerage front office activities consist mainly of local and international brokerage. At the end of 2016, ANB Invest's brokerage serviced approximately 239,033 re-registered accounts.

Company's core operating system is called Mubasher, which is used as a front end and back-end system for its brokerage business. During 2016 enhancements and testing were done on the system to roll-out new products mainly the new e-trading platform called TWS, iPhone, iPad and Android. The enhancements and new products provides the Company with better means to service its wide based customers as well as having better system controls.



#### (c) Asset Management

The asset management team manages the Company's 16 mutual funds and the discretionary portfolio management mandates ("DPMs"). The 16 mutual funds are overseen by two fund boards consisting of six directors including two of them being independent members in each board. One fund board oversees the conventional funds, while the other fund board oversees the Shariah-compliant funds. Bassam Al Mubarak, the CEO of the Company, is the chairman of both fund boards.

Of the 16 funds, two are non-local and sub-managed by a US-based firm called SEI.

#### (d) Corporate Finance

This department sources and executes financial advisory mandates for IPOs, Sukuk, mergers & acquisitions and corporate restructurings. It also advises ANB on a number of corporate mandates. During the year, ANBI were joint underwriters for Rights Issue offerings pertaining to two listed Companies.

#### (e) Back Office Operations

The operations department provides back office support to the brokerage and asset management divisions. This includes account opening and re-registration operations, end-of-day reconciliation and settlement with Tadawul, KYC updates, cash and security transfers, execution of fund subscriptions, redemptions, NAV calculations and custodial arrangements.

#### (f) Administration Services

This department manages supplies & purchases, archiving and Government relations.

#### (g) Marketing and Customer Relations

The Marketing and Customer Relations division consists mainly of a team of professionals that are located in the head office or in investment centers across the Kingdom. Their responsibilities cover campaigns to attract new business, sale of mutual funds and discretionary portfolio assignments, customer services and the marketing of new products. This Division also includes a customer services unit that deals with customer complaints and complex customer queries and a call center that deals with more routine customer queries.

#### (h) Finance Services and Risk Management

The Finance services department is headed by a team of qualified professionals, mainly responsible for payment processing, cash management, financial & regulatory reporting and client money reconciliation. Department is also responsible for risk management of the Company in co-ordination with Risk Management Group of ANB under a service level agreement.



#### (i) Compliance and Anti-money Laundering

The Company believes that Compliance with laws, rules and regulations is a fundamental element to its success. ANBI is committed to protect its reputation and credibility; protecting shareholders and depositors and providing safeguards against sanctions. Such is achieved by compliance with applicable laws, regulations, and ethical standards. All employees are expected to conduct business and their daily tasks in compliance with these laws, regulations, and ethical standards, and management is responsible for ensuring such compliance. The Board of Directors has a collective responsibility for managing compliance risks across the Company. The management of business and support units has responsibility for managing compliance risk at a specific unit level assisted by dedicated compliance officers. The Company has established an independent Compliance and AML Division to be entrusted with compliance functions. The Company has adopted a Compliance Policy, Compliance Manual and an Annual Compliance Program to assist the business and support units effectively manage their compliance risks. This is complemented by a robust monitoring program and a regular reporting cycle to the Audit Committee, thereby providing reliable objective assurance to the Board.

This division also includes the activities of the middle office, which receives all new account opening forms (including re-registration forms), and reviews them for missing critical data including KYC, risk profiling and signatures. Moreover, middle office monitors broker-dealer calls for compliance purposes and verifies powers-of-attorney.

#### (j) Human Resources

The Company's HR activities are managed by the HR department of ANB, and this arrangement is covered under a service level agreement. However, the compliance department of the Company is responsible for AP-specific functions, including the registration of employees with the CMA and the induction package for new employees.

#### (k) Service Level Agreements

The Company has entered a master service level agreement with its parent, ANB, that covers Information Technology, Information security, human resources, finance, operations, business continuity, legal affairs, internal audit, risk management, property management, marketing consultation, Islamic banking, AML sharing information, counterparty risk analysis and archiving.



#### (I) Foreseeable Developments

Subsequent to 2016, Company's shareholders decided to inject an additional capital of SR 600 million in order to accommodate margin financing business which will be transferred from ANB to the Company effective April 2017 as required by the Regulators.

In line with the Vision 2030, Regulators have taken number of initiatives to align the local stock market with international markets practice such as changing the stock market trade settlement cycle from T+0 to T+2, short selling, securities borrowing & lending, Secondary market called NUMU to bring small & medium size enterprises to the stock exchange and introducing real estate exchange traded funds (REITS).

In order to help Government shift their dependence from oil based revenue to non-oil based revenue, number of changes will occur in the form of indirect taxes such as custom duty, excise duty effective 2017 and introduction of VAT effective 2018. VAT might have implications on AP's and the Financial service sector which will require system changes and enhancements during 2017.

The CMA issued a circular No. S/6/98/16 dated Rabi Al- Thani 27, 1437H (corresponding to January 7, 2016) in which the Authority urges Authorized Persons to migrate from accounting standards issued by SOCPA to International Financial Reporting Standards (IFRS) starting January 1, 2018. Accordingly, the Company during 2017 will plan its conversion/migration to accounting standards issued under IFRS.



# III. Directors' Report on 2016 Financial Results

#### **Overview**

Total revenues of the Company in 2016 ended at SR 108 million, representing a decrease of 25% over 2015.

Expenses for the year 2016 were at SR 78 million, down by SR 2 million or 2%, compared to last year. This was possible due to cost control initiatives adopted by the management.

Profitability of the Company in 2016 ended at SR 33 million, compared to SR 61 million in the previous year, representing a decrease of 47%. However, a one-time fee earned from a private placement fund helped the profitability in the previous year.

#### Comparison of the 2016 results with the 2015 results:

(SR' 000)	Year 2016	Year 2015	Change
Revenues			
Brokerage	49,081	66,453	(17,372)
Asset Management	37,425	67,030	(29,605)
Other Income	21,783	10,677	11,107
Total Revenues	108,289	144,160	(35,870)
Expenses			
Salaries and related benefits	51,476	52,929	1,453
Depreciation	2,400	2,742	342
Other Selling, G&A	24,205	24,357	152
Total Expenses	78,081	80,028	1,947
Net Operating Income	30,208	64,132	(33,923)
Share in profit / (loss) from associate	2,570	(2,692)	5,262
Net Income	32,777	61,440	(28,661)

#### Revenues of 2016 compared with 2015

Total revenues for the year 2016 were SR 108 million, compared with SR 144 million for the previous year, representing a decrease in the overall revenue by SR 35.9 million or 25%. The reason was lower revenues from brokerage business due to lower volumes on Tadawul and a one-time fee earned by asset management. However, revenues from other business lines improved to partially off-set the decline of revenues from brokerage and asset management.



#### **Brokerage**

Revenue from brokerage accounted for 45% of the overall revenue of the Company for 2016 compared to 46% the previous year. Brokerage revenues were SR 49 million compared to SR 66.4 million the previous year, representing a decrease of SR 17.4 million or 26%. The value of trades on the Tadawul market were SR 2.3 trillion in 2016, compared to SR 3.3 trillion last year, representing a 30% decrease. Tadawul All Share Index (TASI) ended 2016 at 7,210.43 points compared to 6,911.76 points at the end of 2015 a gain of 298.67 points or 4.32%. During the year TASI dropped to a low of 5,327.49 following the drop of oil prices but subsequently recovered with the rebound of oil prices and the announcement of the Governments future reform measures in the form of a road map Vision 2030 and the easing of the liquidity crunch towards the end of 2016.

#### **Asset Management**

Asset management is the second most important activity for ANB Invest, total revenues for the year 2016 were at SR 37.4 million representing approximately 35% of the Company's revenues compared to 46% the previous year. Revenues from asset management decreased by SR 29.6 million due to the one-time fee received from private placement fund in 2015. However, lower revenues in 2016 were off-set by the increase in revenue from DPM's and two new funds.

The Company manages total AUM of SR 8,331 million compared to SR 5,058 million in 2015, an increase of SR 3,273 million or 65%.

AUM in regards to mutual funds were SR 5,060 million by end of 2016 compared to SR 4,640 million at beginning of the year, an increase by almost 9%. Revenue from AUM's of local equity funds were significantly impacted due to the decline of the TASI index and the closure of three international funds. The negative impact on the revenues from AUM's was partially off-set by the launch of two new funds with a total AUM of SR 275 million. The new funds are local equity IPO fund with an AUM of SR 100 million and a private placement real estate fund with an AUM of SR 175 million. The overall AUM's from Trade & Money Market Funds represent 50% of AUM's, real estate funds represent 36%, local equity and multi-asset funds represent 14%.

In regards to portfolios that are managed on a discretionary basis for the benefit of corporate or high net worth individuals the AUM's in 2016 increased to SR 3,271 million compared to SR 418 million in 2015. AUM in relation to equity DPMs increased by 267% to SR 874 million compared to SR 238 million at the end of 2015. AUM in relation to money market DPM's increased significantly to SR 2,397 million at the end of year 2016 compared to SR 180 million by end of 2015.



#### **Other Activities**

Other activities include corporate advisory services, special commission income and custody of securities. The decrease in brokerage and asset management revenues was compensated by income generated by corporate advisory services by executing assignments related to rights issues for Al Wataniya and Takween in 2016.

Special commission income from available free capital invested in Murabaha deposits, have shown an increase mainly due to better commission rates offered by local banks during 2016 compared to last year.

#### Expenses for year 2016 compared with 2015 year

Total expenses for the year 2016 were SR 78 million compared with SR 80 million for last year, representing saving in overall cost of SR 1.95 million or 2%, mainly from salaries and related benefits.

#### Salaries and Related Benefits

Salaries and related benefits were SR 51.5 million compared to SR 53 million last year. Savings in overall salary cost by SR 1.5 million or 3%. Savings in 2016 was due to one-time additional salary of SR 2.7 million paid to staff in 2015 as per the Royal decree.

#### **Other Expenses**

Operational cost was SR 24.2 million in 2016, which is in line with last year expenses. In order to reduce cost, cost control measures were adopted by the management during the year. However, penalties from the Regulator which were not in the control of the management of SR 1.04 million, did impact the overall operational cost of the Company. Besides such penalties most of the operational cost was in line with previous year.

#### Investment in an associates

In 2015, ANB Invest subscribed 25.47% of the total units of ANBI Business Gate Fund amounting to SR 242 million as a seed investment. It is a closed-ended private placement real estate investment fund. ANB Invest exercises significant influence over the fund and accordingly classified as investment in associate. An amount of SR 2.57 million accounted for profit in the fund for the year 2016 compared to a loss of SR 2.7 million in 2015.

#### Balance Sheet as at December 31, 2016 compared with December 31, 2015

Assets have increased by 2.91% during 2016, and shareholder's equity has increased by 2.62%. The balance sheet is liquid, as cash/cash equivalents, investment in associate and available-for-sale investments represent 96.16% of total assets. Current ratio of the company is quite strong as current assets are 15.63 times current liabilities. Capitalization of the Company is equally strong, as the shareholder's equity represents 92% of total assets.



(SR '000)	2016	2015			
Assets					
Cash, short-term investments	466,931	436,631			
Prepaid expenses and other assets	20,227	16,266			
Total current assets	487,158	452,897			
Investment in associate	222,517	239,308			
Available-for-sale investments	41,094	36,536			
Property & equipment	8,941	9,496			
Total non-current assets	272,552	285,340			
Total Assets	759,710	738,237			
Liabilities					
Accrued expenses and other liabilities	17,141	14,897			
Zakat and other income tax payable	13,581	16,114			
Total current liabilities	30,722	31,011			
End of service indemnities	29,675	26,180			
Shareholders' equity	699,313	681,046			
Total liabilities and shareholders' equity	759,710	738,237			

# **Dividend Distribution Policy**

The Company's Board intends not to distribute dividends out of their net income of 2016 or accumulated retained earnings to the shareholders. However, Board recommended to pay cash distribution of SR 4.37 million which represents the difference between income tax provision relating to foreign shareholder of ANB and the equitable zakat amount. This distribution is subject to final approval by general assembly.



# IV. Board and Committee Membership

#### (a) Board Members

The Board of the Company consists of six members, two of which sit as independent board members. These board members, their principal occupation, their committee memberships and their presence on other boards (if any) are enumerated as follows:

- Raied A. Al Seif, Chairman and independent member: Mr. Al Seif has been approved as board member by the CMA on October 07, 2015. He was also a member of the Audit Committee of the Board. He is Director of Investment and Business Development for Prince Sultan Bin Mohamed Bin Saud Al Kabeer. Mr. Al Seif sits as an independent member on the board of directors of the Mobile Telecommunications Company of Saudi Arabia Zain KSA.
- *Sami A. Alomran, independent member*: Mr. Alomran has been approved as a board member by the CMA on October 31, 2011. He is an investment consultant. He does not sit on any other company board.
- *Dr. Robert Eid, non-executive board member*: Dr. Eid has been approved as a board member and Chairman on July 10, 2007. On August 13, 2011, he was replaced as Chairman but remained as board member. He is the chairman of the Nomination and Compensation Committee of the Board, and is the Managing Director of ANB. He sits on the board of directors of ANB, MetLife AIG ANB Cooperative Insurance Co. and Saudi Homes Loans.
- Zuhair Al Herbish, non-executive board member: Mr. Al Herbish had been approved as a board member and Chairman on August 13, 2011. On October, 2015, he was replaced as Chairman but remains as board member. He also sits on the Nomination and Compensation Committee of the Board. He joined ANB in September 1995 and was appointed Head of Legal Affairs in September 1996. He does not sit on any other company board.
- Fahad Al Kadi, non-executive board member: Mr. Al Kadi has been approved as board member by the CMA on July 30, 2013. He is also the Chairman of the Audit Committee of the Board. Mr. Al Kadi is Head of Retail Banking at ANB, and is the Bank's representative on the board of directors of Saudi Travellers Cheques.
- Bassam Al Mubarak, chief executive officer and Executive board member: Mr. Al Mubarak has been
  approved as board member by the CMA on March 02, 2015. He Joined ANB in June 2007 and headed the
  brokerage division of ANB Invest before being appointed CEO on 25 September 2014, Mr. Bassam does not
  sit on any other company board.



The Board has met four times during 2016 in order to discuss, among others, quarterly management reports, review and approve a budget, discuss strategic directions to improve the Company's market share and discuss & approve products or services to be launched by the Company.

Except for matters expressly reserved for shareholders, the Board has the broadest possible authority to manage the Company in the best interest of the shareholders and in accordance with the laws and regulations of the Kingdom and its By-Laws which came into force on 09/01/1436 H (corresponding to 12/11/2014 G). Its responsibilities are to endorse the Company's strategy, develop directional policy, appoint, supervise and remunerate senior executives and to ensure accountability to the shareholders and the Regulator.

#### (b) Committees of the Board

The four committees of the Board are listed below, along with their membership and a summary of their terms of reference:

#### • Audit Committee:

Members of this committee are Mr. Fahd Al Kadi, Chairman of the committee and Mr. Rabih Zeidan, both members from Arab National Bank and independent member Dr. Mohammed Al Moghaiwli. This committee met four times during the year. The committee's scope includes the following:

- Monitoring the integrity and fairness of the financial statements;
- o Keeping under review the effectiveness of the internal controls and risk management systems;
- o Ensuring that whistleblowing cases get appropriately and independently investigated;
- Monitoring and reviewing the effectiveness of the internal audit function;
- Making recommendations to the Board in relation to the appointment of the external auditors.

#### • Nomination and Compensation Committee:

Members of the committee are Dr. Robert Eid who serves as the committee chairman, Mr. Zuhair Al Herbish (both are ANBI board members). The committee met two times during the year. The committee's functions are as follows:

- o raise recommendations to the Board for nominations as Board members;
- supervise the development of a compensation policy for board approval and conduct a periodic review;
- assess compensation payment practices based on probable realization of future profits;
- endorse the overall compensation pool based on projected, risk-adjusted profitability of the Company.



#### • Underwriting Committee:

Members are Dr. Robert Eid Chairman, Mr. Fahad Al Kadi, Mr. Bassam Al Mubarak (board members) and as non-voting members Mr. George Oueijan, Head of Corporate Finance. The committee met three times during the year. The committee is to adjudicate and to approve/disapprove proposals to underwrite debt, equity and related securities presented by the Corporate Finance division of the Company.

#### • Risk Management Committee:

Members of the committee are Mr. Bassam Al Mubarak, Chief Executive Officer who serves as a Chairman of the committee, Mr. Shams Contactor, Head of Operations, Mr. Mazin Al Malki, Chief Compliance Officer and Mr. Mustafa Lakkedghatwala, Chief Financial Officer, Mr. Faiz Afzaluddin, Head of Operational Risk Management at ANB, and Mr. Muhammed S. Sajid, Basel Project Manager at ANB. The committee met two times during the year. The committee's functions are as follows:

- o review of risk management processes on a regular basis which identify, measure, control and monitor risks within the Company and submit a report to the Board on the adequacy of such processes at least annually;
- o review and approve the Company's internal capital adequacy assessment process;
- o review the Capital Adequacy Model (CAM) reports submitted monthly to the CMA;
- o review the adequacy and effectiveness of any material outsourcing.

#### (c) Compensation

(SR '000)	Executive Board Members	Non-Executive/ Independent Board Members	Top 5 Senior Executives
Salaries & compensations	-	-	6,148
Allowances	*	200	2,102
Periodic and annual bonuses	-	-	3,680
Incentive Schemes	-	-	126
Any other in-kind compensations or benefits paid on monthly or annual basis	-	-	-

<sup>\*</sup>Executive board member has not receive any allowances for acting as a board member



# (d) Board meetings and attendance details

Name of Board Member	Designation	28 Mar. 2016	28 Jul. 2016	18 Oct. 2016	21 Dec. 2016
Raied A. Al Seif	Chairman & Independent Member	Ø	Ø	Ø	Ø
Dr. Robert Eid	Non- Executive Member		×	Ø	
Zuhair Al Herbish	Past Chairman & Non- Executive Member	Ø	Ø	×	Ø
Fahad Al Kadi	Non- Executive Member	$\square$		Ø	Ø
Sami A. Alomran	Independent Member	×	Ø	Ø	Ø
Bassam Al Mubarak	CEO & Executive Member	Ø	Ø	Ø	Ø



# V. Fines Imposed in 2016

The Company conducts its business in line with Capital Market Law and its Implementing Regulations issued by the supervisory and regulatory authorities in the Kingdom of Saudi Arabia. In 2016, CMA imposed fines on ANB Invest for breach of three Regulations with different Articles which have been handled and rectified. Details of Regulations breached for which the fines were imposed are as follows:

Reason for imposition the fine	Fine Amount (SR '000)
Breach of Authorized Person Regulation	870
Breach of Investment Account Opening Instructions	110
Breach of Investment Fund Regulation	60
Total	1,040*

<sup>\*</sup> In December 2016 we received a penalty of SR 10k, which was paid and accounted for in 2017



# **VI.** Statutory Payments

Statutory payments due in 2016 were as follows:

	Amount (SR '000)
Tadawul Brokerage Commission	33,142
Zakat attributable to Saudi Shareholders	10,772
Income- Tax payable by Non- Saudi Shareholders	2,809
GOSI	2,509
CMA License fee	210
Tadawul License fee	190
Withholding Tax	81
Ministry of Commerce & Investment – Commercial Registration	19
CMA staff Registration fee	16
Total	49,748



#### VII. Internal Control Processes

The Management is responsible for establishing and maintaining an adequate and effective internal control system. The internal control system includes the policies, procedures and processes, which are designed under supervision of the Board to achieve the strategic objectives of the Company. Internal Audit based on an service level agreement with the Bank, provides an independent appraisal to the Board's Audit Committee and the management as to the effectiveness of internal controls, regulatory compliance and conformity with Company's approved policies and procedures. All significant and material findings of internal audit reviews are reported to the Audit Committee of the Board through quarterly activity reports. The Audit Committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interest of the Company and its stakeholders.

#### **Internal Audit**

The role of the internal audit department is based on conducting field and documentary review of all business units and departments in the Company by samples or comprehensive coverage, continuous follow-up on internal control systems and the extent of compliance with the policies and procedures, developing the necessary corrective plans and submission of reports to the senior management on the same. The internal audit department shall conduct audits and reviews in accordance with the risk-based approach as it shall audit all matters regulatory risks within the activities of the business units. Also, all breaches and violations shall be stated in the audit report and submitted to the senior management and the compliance department, while the Chief Compliance & AML Officer must verify that the business or support unit has a plan to reduce the severity or consequences of the non-compliance and regulatory risks. Also, the Chief Compliance & AML Officer or the competent officer in the compliance department may join the internal audit department as a visitor auditor for the purposes of conducting an independent assessment of and monitoring the compliance and anti-money laundering risks.

Concerted and integrated efforts are made by all functions of the Company to improve the control environment at gross root level through continuous reviewing and streamlining of procedures to prevent and rectify any control deficiencies. Each function, under the supervision of the Senior Executive Management is entrusted with the responsibility to oversee rectification of control deficiencies identified by internal and external auditors.



#### Risk

The role of the risk coordinator, is to identify, classify, assess and mitigate the regulatory and business risks, monitor the procedures of mitigation of such risks and submit the related reports to the senior management, while the departments shall document the risks, identify and document the controls and evaluate the effectiveness of such controls.

The Company's departments shall coordinate with the risk coordinator to determine the Key Risk Indicators (KRIs) of the business units, such Key risks shall be assessed and classified into high, medium and low risks through specific standards. The business units shall also, through its Compliance Matrix, identify all the requirements that may be included in the Control Risk Self-Assessment (CRSA) of the business units in order to conduct self-assessment of such requirements by the business units and to submit the relevant comments to the risks group.

#### **Compliance**

The compliance department works closely with the risk coordinator and the internal audit department and the other control departments constitute the basis for control of the Company's activities in general. In order to achieve an effective control system and assess risks from a more comprehensive view, the control departments must work on their initiatives to coordinate and unify the efforts to ensure mitigating the risks relating to non-compliance and to face the challenges faced by the Company in view of the wide regulatory environment area.

The Compliance function, which is subject to periodic and independent review by the internal audit function, carries out its duties and responsibilities under a compliance program that sets out its planned activities, such as the implementation and review of specific policies and procedures, compliance risk assessment, compliance testing, and educating staff on compliance matters. The Company's internal control system has been designed to provide reasonable assurance to the Board, on the management of risks to achieve the Company's strategic objectives. Internal control systems, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies and procedures.

Management has adopted internal controls integrated framework as recommended by CMA through its guidelines on internal controls. The Audit Committee also receives quarterly updates on the Internal Controls Gaps from Internal Audit Department of the Company. The update on internal controls gaps confirms that the highlighted gaps in the Company's internal control system have been adequately addressed by the Management.



#### **Business continuity**

In role of Business continuity is based on the service level agreement with the Bank, which is to provide support to the Company to do the following:

- > Develops business continuity policies and procedures for the Company in line with industry standards;
- Formulates plans to enable the Company to quickly continue its critical operations in the event of a disruption to normal business;
- > Continuously tests the Business Continuity Plan through a series of exercises across the Company; and
- Promotes awareness and understanding of business continuity among the Company's staff.

Based on the results of the ongoing evaluation of internal controls carried out by the management during the year, the management considers that the Company's existing control system is adequately designed, operating effectively and monitored consistently. Nevertheless, the management continuously endeavors to enhance and further strengthen the internal control system of the Company.

#### Results of the Review of Internal Control Procedures' Effectiveness

The Audit Committee reviews the effectiveness of the internal control system and informs the Board of the steps taken in this regard. It also submits an inclusive annual report to the Board to assist it in its review of the effectiveness of the internal control system. Following the Audit Committee's review of the Company's internal control procedure reports, most important of which is the Internal Audit and Risk Management reports and after meetings with the respective heads of these functions to discuss the contents of their reports and the performance of their sectors, the Committee conveys its conclusion to the Board whether the Company's internal control cycle reflects the effectiveness of its internal control procedures and that it is in continued development to meet changing business needs and developments. The Committee is not aware of any significant control gaps or weaknesses in the Company's internal control systems that require disclosure.

Regarding the accounting policies applied in the Company, the Committee continually discusses the impact of instructions issued by CMA and other regulatory authorities and any changes in the Company's accounting policies or local Standards (SOCPA) with the Company's officials and periodically with the External Auditors to ensure its implementation in compliance with said instructions/changes.



# VIII. Risk Management

The Company has well documented Risk Management Policy approved by its Risk Management Committee and Board of Directors. The policy provides guidelines for identification, measurement and control of relevant risks originating from the different business lines including capital estimation for each risk component under the regulatory guidelines. Risk management reporting and monitoring framework is in place which allows the senior management to monitor and analyze the risk at the Company level enabling the management to assess the risk level and trend, the sensitivity and reliability of risk management processes within the Company.

The overall risk within the Company is managed under the supervision of Risk Management Committee. The Risk Management Committee on an ongoing basis reviews the risk profile of the Company against the Risk Appetite Statement and also the ICAAP exposures to ensure the risk remains appropriate against the Capital availability. The Company identifies an overall risk appetite limit and a number of key risk components. The level of risk appetite is arrived at in consideration of the various business targets and the risk management processes adopted.

The Risk Committee ensures that the Company on an overall basis will not incur financial losses during any particular year which exceeds the limits by certain percentage of the capital base of the Company. As part of the risk management framework and as per the risk strategy monitoring, risk coordinator monitors and reports the risk appetite limits / benchmarks for various types of risks perceived in the business risk appetite statement to the Company's management and the Risk Committee.

Based on risk management framework, Company has identified the major risks to which it is exposed to during the year:

#### **Credit Risk**

Credit risk arises from the default of the counterparties due to inability or unwillingness to meet their obligation in relation to lending, trading, settlement or other financial transactions. The credit exposure of the Company is minimal with exposures in Murabaha/short term deposits with its parent Bank (ANB) or any other local or regional Bank and seed capital investment in newly created funds, which are managed by the Company. Further, the Company does not have any open positions in derivative transactions, repos and reverse repos and securities borrowing/lending either during the year or at the balance sheet date.



#### **Market Risk**

Market risk generally arises from trading book exposure related to the positions which are held intentionally for short term resale and / or with the intent of benefiting from actual or expected short term price movements or to lock in arbitrage profit. Market risk consists of various components like interest rate risk, foreign exchange risk, equity price risk, underwriting risk, settlement risk, counterparty risk and commodity price risk. The Company has no trading book exposure as of balance sheet date. Except, for underwriting commitment related to right issue of Takween shares for which the company had to purchase the balance committed rights shares. Subsequently, the purchased rights shares were sold in the market with a trading profit of SR 0.4 million.

#### **Operational Risk**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is inherent within each and every activity or process conducted by the business. The Company continuously strives towards updating its policies, procedures, processes and systems with a view to reduce the operational losses. The Company has taken adequate insurance policy to insure its business and also have well documented Business Continuity Plan to manage unexpected crises and ensure continued effective operations.

#### **Liquidity Risk**

Liquidity risk is the inability to meet obligations in a timely manner when they become due. The Company's overall liquidity situation is very comfortable as significant assets are available to meet the unexpected crises.

#### **Regulatory Risk**

Regulatory risk relates to risk of direct or indirect losses (including regulatory fines) arising from non-compliance with regulatory guidelines on product offerings, customer services, filing of statutory returns etc. including compliance with anti-money laundering guidelines. The risk is primarily managed by the business and through an independent compliance function responsible for providing guidance and independent control and review of regulatory risk within the Company.



# **IX.** Related Party Transactions

During the year, the Company transacted with the following related parties. The terms of those are approved by the management of the Company.

Name	Relationship	
Arab National Bank ("ANB")	Shareholder	
Mutual Funds	Managed Funds	
Key Management Personnel	Key Management	

The significant transactions with related parties and the related amounts are as follows:

(SR '000)	2016	2015
Asset management fees / Income from ANB	1,688	1,331
Asset management fees / Income from Mutual Funds	28,518	64,784
Corporate finance income from ANB	4,800	6,100
Special commission income from ANB	12,821	3,326
Custody fees from ANB	858	858
Subscription & Investment in units with associates	242,000	242,000
Administrative expenses allocated by ANB	(5,823)	(5,823)
Rent expenses allocated by ANB	(2,343)	(2,129)
Meeting fees to independent directors of Board	(200)	(200)
Meeting fees to independent directors of Audit Committee	(50)	(50)
Difference of Equitable Zakat to foreign shareholder	1,488	1,212
Salaries and related benefit to key management personnel	(11,456)	(11,726)



# X. Code of Conduct

The Company is committed to conduct its business in accordance with the highest ethical standards, relevant legislation and regulation. The Company fully cooperates with regulators and supervisory bodies.

The Board sets the ethical tone within the Company and encourages management and staff to act ethically and in accordance with applicable laws, rules, regulations and policies of the Company, and in line with best practices.

The Board ensures, through senior management, that it has established through word and action the desired value-based culture and reinforces appropriate behavior through effective awareness programs. The Company has a Code of Ethical Behavior consistent with best practice. The code sets out the values that guide behavior and conduct of business across the organization.



# XI. Loans

Since the Company is adequately capitalized, the management of the Company during 2016 did not have any loans in its books of accounts from any of the related parties and local or international financial institutions.



# XII. Audited Financial Statements

#### **Accounting Standards**

The Company prepares its financial statements in accordance with Accounting Standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). The Company also prepares its financial statements to comply with the requirements of the Provisions of the Regulations for Companies, CMA Rules & Regulations and the Company's By-laws.

#### **External Auditors**

In its meeting held on May 4, 2016, the Ordinary General Assembly appointed Messrs. KPMG Al Fozan & Partners as external auditor of the Company for the year 2016.

#### Statement of Directors' Responsibilities in Relation to the Financial Statements

The Board, to the best of its knowledge, confirms that:

- > The Company has properly maintained its accounting records;
- > The internal control system was properly prepared and effectively implemented;
- > There is no doubt that Company has the resources to continue in business; and

Please refer to the Company's website link <u>www.anbinvest.com.sa</u> for independent auditor report, audited financial statements, along with the notes pertaining thereto, for the year 2016 and 2015.



# XIII. Pillar III Disclosures

As required by the Prudential Regulation and as per the suggested format published by CMA for Pillar III qualitative and quantitative disclosures. Please refer to the Company's website link <a href="https://www.anbinvest.com.sa">www.anbinvest.com.sa</a>.

To obtain ANB Invest latest annual report please visit www.anbinvest.com.sa
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