



ARAB NATIONAL INVESTMENT COMPANY
(Closed Joint Stock Company)
Financial Statements
For the year ended 31 December 2016
together with the
Independent Auditor's Report



KPMG Al Fozan & Partners
Certified Public Accountants
KPMG Tower
Salahudeen Al Ayoubi Road
P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Telephone +966 11 8748500
Fax +966 11 8748600
Internet www.kpmg.com.sa

License No. 46/11/323 issued 11/3/1992

INDEPENDENT AUDITORS' REPORT

To: **The Shareholder**
Arab National Investment Company (Closed Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

We have audited the accompanying financial statements of **Arab National Investment Company – Closed Joint Stock Company** (the “Company”) which comprise the balance sheet as at 31 December 2016 and the related statements of income, cash flows and changes in shareholders’ equity for the year then ended and the attached notes (1) through (29) which form an integral part of the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and Company’s bylaws, 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. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors’ responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements taken as a whole:

- 1) present fairly, in all material respects, the financial position of **Arab National Investment Company** as at 31 December 2016, and of its results of operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia; and
- 2) comply with the requirements of the Regulations for Companies and the Company's bylaws with respect to the preparation and presentation of the financial statements.

For KPMG Al Fozan & Partners
Certified Public Accountants

Abdullah Hamad Al Fozan
License No.: 348



Date: 29 Jumada'II 1438H
Corresponding to: 28 March 2017

ARAB NATIONAL INVESTMENT COMPANY
(Closed Joint Stock Company)
BALANCE SHEET
As at 31 December 2016
(Amounts in SR)

| | <u>Notes</u> | <u>2016</u> | <u>2015</u> |
|--|--------------|--------------------|-------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 4, 10 | 466,930,857 | 136,631,000 |
| Short-term investments | 5, 10 | - | 300,000,000 |
| Prepaid expenses and other assets | 8, 10 | 20,227,467 | 16,266,151 |
| Total current assets | | 487,158,324 | 452,897,151 |
| Non-current assets | | | |
| Investment in associate | 6, 10 | 222,517,268 | 239,308,030 |
| Available for sale investments | 7, 10 | 41,093,824 | 36,535,604 |
| Property and equipment, net | 9 | 8,940,424 | 9,496,606 |
| Total non-current assets | | 272,551,516 | 285,340,240 |
| TOTAL ASSETS | | 759,709,840 | 738,237,391 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accrued expenses and other liabilities | 11 | 17,140,880 | 14,897,162 |
| Zakat and income tax payable | 12 | 13,581,091 | 16,113,989 |
| Total current liabilities | | 30,721,971 | 31,011,151 |
| Non-current liability | | | |
| End of service benefits | 14 | 29,674,850 | 26,179,760 |
| TOTAL LIABILITIES | | 60,396,821 | 57,190,911 |
| Shareholders' equity | | | |
| Share capital | 1, 28 | 400,000,000 | 400,000,000 |
| Statutory reserve | 13, 28 | 40,644,498 | 37,366,744 |
| Retained earnings | | 249,274,788 | 234,844,223 |
| Change in fair value of available for sale investments | 7 | 9,393,733 | 8,835,513 |
| Total shareholders' equity | | 699,313,019 | 681,046,480 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 759,709,840 | 738,237,391 |

The accompanying notes 1 to 29 form an integral part of these financial statements.

ARAB NATIONAL INVESTMENT COMPANY

(Closed Joint Stock Company)

STATEMENT OF INCOME

For the year ended 31 December 2016

(Amounts in SR)

| | <u>Notes</u> | <u>2016</u> | <u>2015</u> |
|---|--------------|---------------------|--------------|
| Revenues | | | |
| Brokerage | 15 | 49,081,408 | 66,453,343 |
| Asset management | 10, 16 | 37,424,383 | 67,030,300 |
| Corporate finance | 10 | 7,600,000 | 6,100,000 |
| Special commission income | 10 | 12,821,111 | 3,548,584 |
| Custody fees | 10 | 958,022 | 1,027,780 |
| Realized gain on disposal of held for trading investments | 17 | 403,892 | - |
| Total revenues | | 108,288,816 | 144,160,007 |
| Expenses | | | |
| Salaries and related benefits | 10, 18 | (51,476,206) | (52,929,808) |
| Rent and office related expenses | 10 | (3,792,539) | (3,768,891) |
| Depreciation | 9 | (2,399,932) | (2,741,889) |
| Other general and administrative expenses | 19 | (20,411,838) | (20,587,733) |
| Total expenses | | (78,080,515) | (80,028,321) |
| Net operating income for the year | | 30,208,301 | 64,131,686 |
| Share in profit / (loss) from associate | 6 | 2,569,238 | (2,691,970) |
| Net income for the year | | 32,777,539 | 61,439,716 |
| Earnings per share: | 20 | | |
| Income from operations for the year | | 0.76 | 1.60 |
| Net income for the year | | 0.82 | 1.54 |

The accompanying notes 1 to 29 form an integral part of these financial statements.

ARAB NATIONAL INVESTMENT COMPANY

(Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

(Amounts in SR)

| | <u>Notes</u> | <u>2016</u> | <u>2015</u> |
|---|--------------|---------------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income for the year | | 32,777,539 | 61,439,716 |
| <i>Adjustments to reconcile net profit to net cash generated from operating activities:</i> | | | |
| Depreciation | 9 | 2,399,932 | 2,741,889 |
| Provision for end of service benefits | 14 | 3,535,881 | 3,404,513 |
| Share in (profit) / loss from associate | 6 | (2,569,238) | 2,691,970 |
| | | 36,144,114 | 70,278,088 |
| Changes in operating assets and liabilities: | | | |
| Prepaid expenses and other assets | 8 | (3,961,316) | (717,191) |
| Accrued expenses and other liabilities | | 2,243,718 | 5,918,049 |
| | | 34,426,516 | 75,478,946 |
| End-of-service benefits paid | 13 | (40,791) | (5,026,838) |
| Zakat and income tax paid | 12 | (17,602,118) | (16,501,393) |
| Net cash generated from operating activities | | 16,783,607 | 53,950,715 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | 9 | (1,843,750) | (274,775) |
| Short-term investments matured | 5 | 300,000,000 | 60,000,000 |
| Dividend received from associate | 6 | 19,360,000 | -- |
| Investments in available for sale | 7 | (4,000,000) | -- |
| Investments in associates | 6 | -- | (242,000,000) |
| Net cash flow from / (used in) investing activities | | 313,516,250 | (182,274,775) |
| Net change in cash and cash equivalents | | 330,299,857 | (128,324,060) |
| Cash and cash equivalents, beginning of the year | | 136,631,000 | 264,955,060 |
| Cash and cash equivalents at the end of the year | 4 | 466,930,857 | 136,631,000 |
| Supplemental non-cash information: | | | |
| Change in fair value of available for sale investments | 7 | 558,220 | (1,013,462) |

The accompanying notes 1 to 29 form an integral part of these financial statements.

ARAB NATIONAL INVESTMENT COMPANY
(Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2016
(Amounts in SR)

| | <i>Notes</i> | Share capital | Statutory reserve | Retained earnings | Change in fair value of available for sale investments | Total |
|---|--------------|----------------------|--------------------------|--------------------------|---|--------------------|
| Balance as at 1 January 2015 | | 400,000,000 | 31,222,772 | 196,874,269 | 9,848,975 | 637,946,016 |
| Changes in fair value of available for sale investments | | -- | -- | -- | (1,013,462) | (1,013,462) |
| Net income for the year | | -- | -- | 61,439,716 | -- | 61,439,716 |
| Zakat and income tax | 12 | -- | -- | (17,325,790) | -- | (17,325,790) |
| Transfer to statutory reserve | 13 | -- | 6,143,972 | (6,143,972) | -- | -- |
| Balance as at 31 December 2015 | | 400,000,000 | 37,366,744 | 234,844,223 | 8,835,513 | 681,046,480 |
| Changes in fair value of available for sale investments | | -- | -- | -- | 558,220 | 558,220 |
| Net income for the year | | -- | -- | 32,777,539 | -- | 32,777,539 |
| Zakat and income tax | 12 | -- | -- | (15,069,220) | -- | (15,069,220) |
| Transfer to statutory reserve | 13 | -- | 3,277,754 | (3,277,754) | -- | -- |
| Balance as at 31 December 2016 | | 400,000,000 | 40,644,498 | 249,274,788 | 9,393,733 | 699,313,019 |

The accompanying notes 1 to 29 form an integral part of these financial statements.

ARAB NATIONAL INVESTMENT COMPANY

(Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Amounts in SR)

1. GENERAL

Arab National Investment Company (the “Company”) is registered in Riyadh, Kingdom of Saudi Arabia under commercial registration No. 1010239908 on Shawwal 26, 1428 H (corresponding to November 7, 2007). The Company has taken over the management of the Arab National Bank (“the Bank”) investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities, as from the date of commencement of its commercial operations on January 12, 2008.

The Company is a closed joint stock company, which was converted from limited liability company on the directions from Capital Market Authority (CMA) dated Sha’ban 3, 1433 (corresponding to June 23, 2013). Such change was approved according to the Ministerial Resolution No. 317/G dated Muharram 19, 1436 H (corresponding to November 12, 2014), and a revised commercial registration was issued on Rabi Al Awal 17, 1436 H (corresponding to January 8, 2015).

The objective of the Company as approved by CMA Board of Commissioners on Muharram 28, 1437 H (corresponding to November 10, 2015) through a resolution number S/1/6/14832/15 is to conduct dealing as a principal as well as an agent; underwriting the asset management and investment banking activities, discretionary portfolio management, brokerage arranging, advising and custody activities in the Kingdom of Saudi Arabia. This includes various investment activities in Islamic and other related investments such as establishment and management of public equity portfolios, direct investments and real estate funds.

In 2011, Arab National Bank (“ANB” or “the Bank”) acquired an additional 2% equity stake in the Company from the other shareholders, bringing ANB’s equity stake in the Company to 100%. The legal formalities for the transfer of ownership and the amendment of the Company’s articles of association, as required by article No. 164 of the Regulations for Companies, were completed.

The share capital of the Company, amounting to SR 400,000,000, is divided into 40,000,000 shares of SR 10 each fully paid. Subsequent to the year-end i.e. 31 December 2016, the shareholders in the Extra-Ordinary General Meeting on Jumada II 6, 1438H (corresponding to 5 March 2017) has agreed to increase the share capital of the Company by additional SR 600 million divided into 600,000,000 shares of SR 10 each fully paid. Resulting in total share capital of SR 1 billion.

2. BASIS OF PREPARATION

a) Statement of compliance

These financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (“SOCPA”).

b) Basis of measurement

The financial statements are prepared under the historical cost convention except for the measurement at fair value of available for sale investments, using the accrual basis of accounting and the going concern assumption.

c) Comparative figures

Certain comparative amounts have been reclassified to conform to the current year’s presentation.

ARAB NATIONAL INVESTMENT COMPANY

(Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Amounts in SR)

2. BASIS OF PREPARATION (CONTINUED)

d) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (SAR), which is the functional currency. All financial information is presented in SAR, except where disclosed.

e) Use of estimates and judgements

The preparation of financial statements, in conformity with the generally accepted accounting standards in the Kingdom of Saudi Arabia, requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date of the financial statements, in addition to the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of current events and activities, actual results ultimately may differ from those estimates.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Cash and cash equivalents

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

b) Investment in associates

Associates are entities in which the Company generally holds 20% to 50% of the voting power and/or over which it exercises significant influence. Investments in associates are initially recorded at cost and subsequently accounted for under the equity method of accounting and are carried in the statement of financial position at the lower of the equity accounted or recoverable amount.

When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables (if applicable), the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently achieve net income equal to the net losses made during the period, then the application of the equity method will resume.

c) Available for sale investments

Investments in available for sale securities/units are long term investments that are bought neither with the intention of being held to maturity nor for the trading purposes and they are stated at fair value and included under non-current assets, unless they will be sold in the next fiscal year. Changes in fair value are credited to "Change in fair value of available for sale investments" in shareholder's equity. Any decline in value considered to be other than temporary is charged to the statement of income. Investment income is recorded when declared. Fair value is determined by reference to the market value if an open market exists, or the use of other alternative method. Otherwise, cost is considered to be the fair value. Where partial holdings are sold, these are accounted for on a weighted average basis.

ARAB NATIONAL INVESTMENT COMPANY

(Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Amounts in SR)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Held for trading investments

Investments are classified as “held for trading” if they are purchased for the purpose of resale in the short term. Held for trading investments are initially recorded at cost which includes the purchase price plus all expenditures made for the purpose of acquiring the securities. Subsequent to initial recognition, held for trading investments are measured at fair value and resulting gains or losses are recognized in the statement of income. Dividend income is recognized separately in the statement of income. Realized gains or losses at disposal and unrealized gains or losses are determined on average cost basis.

e) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on settlement date. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or market convention. For financial instruments held at fair value i.e. held for trading and available for sale, the Company accounts for any change in fair values between the trade date and the settlement date.

f) Property and equipment

Property and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss except capital work in progress, which is stated at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in the income statement when incurred.

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful life of individual items of property and equipment. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease.

The estimated useful lives of assets for current period is as follow:

| | <u>Years</u> |
|-------------------------|---|
| Leasehold improvements | Over lease period or 10 years, whichever is shorter |
| Furniture and equipment | 4 to 10 |

g) Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income. For asset carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of income.

h) Impairment of non-financial assets

Assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

ARAB NATIONAL INVESTMENT COMPANY

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Amounts in SR)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Payables and accruals

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

j) Financial Instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at fair value and are subsequently measured as per significant accounting policy disclosed for the respective financial asset and liability. Fair value is determined on the basis of objective evidence at the balance sheet date.

k) Revenue recognition

Revenue is recognized to the extent of the following recognition requirements:

- it is probable that the economic benefits will flow to the Company,
- it can be reliably measured, regardless of when the payment is being made
- the cost incurred to date and expected future costs are identifiable and can be measured reliably.

Revenue is measured at the fair value of the consideration received or the contractually defined terms of payment. The specific recognition criteria described below must also be met before the revenue is recognized.

Brokerage income

Revenue from equity brokerage is recognized on settlement basis, and is recorded net of discounts and rebates.

Management fee Income

Management fee income from mutual funds and discretionary portfolio management is recognised proportionately over the period when the services are being provided.

Income from Advisory service

Advisory service fees are recognized based on the applicable service contract, usually on a time proportionate basis as the services are performed.

Custodial services

Fees charged for providing custodial services are recognised as revenue over the period when the services are being provided.

Special commission income

Income generated on the Murabaha deposit placed with banks are recognised as revenue over the period to which it relates, using effective interest rate method.

Dividends income

Dividends are recorded when right to receive the dividends is established.

ARAB NATIONAL INVESTMENT COMPANY

(Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Amounts in SR)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Employees' end of service benefits

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the statement of income. The liability is calculated at the current value of the vested benefits to which the employees are entitled, should their services be terminated at the balance sheet date.

m) Assets held in trust or in a fiduciary capacity

Assets held in trust or in a fiduciary capacity are not treated as assets of the Company, since the Company does not earn economic benefits from these assets and accordingly treated as off-balance sheet items.

n) Foreign currency translation

Transactions denominated in foreign currencies are translated to the functional currency of the Company at the exchange rates prevailing at the dates of the respective transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to Saudi Arabian Riyals at exchange rates prevailing on that date. Gains and losses resulting from changes in exchange rates are recognized in the statement of income.

o) Provisions

Provisions are recognised when a reliable estimate can be made by the Company for a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation.

p) Zakat and income tax

Zakat and income tax, computed in accordance with Saudi Arabian fiscal regulations, are accrued and charged to the retained earnings. Under Saudi Arabian Zakat and Income tax laws, zakat and income taxes are the liabilities of Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the zakat regulations. Income taxes are computed on the foreign shareholders share of net taxable income for the year.

q) Offsetting

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

ARAB NATIONAL INVESTMENT COMPANY

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Amounts in SR)

4. CASH AND CASH EQUIVALENTS

| | 2016 | 2015 |
|---------------------------------------|--------------------|-------------|
| Cash in hand | 55,000 | 55,000 |
| Cash held at banks – current accounts | 26,875,857 | 36,576,000 |
| Murabaha deposit | 440,000,000 | 100,000,000 |
| | 466,930,857 | 136,631,000 |

The Murabaha deposit carries an average commission rate of 3.75% per annum (2015: 1.82%) and have an original maturity period of less than three months from the date of deposit.

5. SHORT-TERM INVESTMENTS

Short-term investment has been made in Murabaha deposits of Nil amount (2015: SR 300 million) carrying an average commission rate of 1.31% per annum in 2015 and having original maturity periods of more than three months from the date of deposit.

6. INVESTMENT IN ASSOCIATE

In 2015, the Company has subscribed 25.47% of the units of the ANBI Business Gate Fund (the Fund) amounting to SR 242 million. It is a closed-ended private placement real estate investment fund launched on 26 August 2014 for a period of 5 years starting from date of closure of first offering on 11 January 2015. CMA was informed of the offering of the Fund through letter number 8/14//411 dated 9 Shawwal 1435H (corresponding to 5 August 2014). The Fund's purpose is to acquire real estate assets, an income generating real estate property located in the city of Riyadh, out of which the Fund will receive rental and hotel operating income over the Fund term. The Company exercises significant influence over the Fund and manages the Fund through an agreement between the Company as Fund Manager and the Fund unitholders. Moreover, the Company has the right to sell its units to an eligible unitholder. However, currently the Company has not decided to sell its units. Accordingly, the Company can exercise influence over the Fund, the same has been accounted for using equity method in these financial statements.

Movement in the investment in associate is as follow:

| | 2016 | 2015 |
|---|---------------------|-------------|
| Balance as at 1 January | 239,308,030 | - |
| Subscription of units | -- | 242,000,000 |
| Share of profit / (loss) from associate | 2,569,238 | (2,691,970) |
| Dividend received | (19,360,000) | -- |
| Balance as at 31 December | 222,517,268 | 239,308,030 |

ARAB NATIONAL INVESTMENT COMPANY

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Amounts in SR)

7. AVAILABLE FOR SALE INVESTMENTS

The available for sale investments as at 31 December consist of the following:

| Investment | Cost | Cumulative change in fair value | Fair value 2016 | Fair value 2015 |
|--|-------------------|--|----------------------------|----------------------------|
| Al Mubarak SAR Trade Fund | 18,054,701 | 1,361,269 | 19,415,970 | 18,921,540 |
| Al Mubarak Diyar Jeddah Real Estate Fund | 9,645,390 | 8,032,464 | 17,677,854 | 17,614,064 |
| Al Mubarak Real Estate Income Fund | 4,000,000 | -- | 4,000,000 | -- |
| | 31,700,091 | 9,393,733 | 41,093,824 | 36,535,604 |

The positive change in fair value of the available for sale investments amounted to SR 558,220 (2015: negative SR 1,013,462) is included within the shareholders' equity as at 31 December 2016.

8. PREPAID EXPENSES AND OTHER ASSETS

| | 2016 | 2015 |
|--|-------------------|-------------------|
| Accrued asset management fees | 15,498,913 | 13,262,139 |
| Accrued special commission income | 3,001,889 | 1,203,945 |
| Accrued corporate finance fees | 900,000 | 900,000 |
| Prepaid rent | 385,255 | 311,000 |
| Prepaid system support expenses | 10,950 | 120,063 |
| Prepaid employees' salaries and other benefits | 14,835 | 31,952 |
| Claims under collection | -- | 22,808 |
| Others | 415,625 | 414,244 |
| | 20,227,467 | 16,266,151 |

9. PROPERTY AND EQUIPMENT, NET

| | Leasehold improvements | Furniture and equipment | Capital work in progress | Total 2016 | 2015 |
|---------------------------------|-----------------------------------|--|---|-----------------------|-------------|
| Cost | | | | | |
| 1 January 2016 | 14,704,664 | 38,854,690 | -- | 53,559,354 | 53,284,579 |
| Additions | 41,749 | 990,750 | 811,251 | 1,843,750 | 274,775 |
| Write-off | - | (12,384,538) | -- | (12,384,538) | -- |
| 31 December 2016 | 14,746,413 | 27,460,902 | 811,251 | 43,018,566 | 53,559,354 |
| Accumulated depreciation | | | | | |
| 1 January 2016 | 14,383,450 | 29,679,298 | -- | 44,062,748 | 41,320,859 |
| Charge for the year | 62,348 | 2,337,584 | -- | 2,399,932 | 2,741,889 |
| Write-off | -- | (12,384,538) | -- | (12,384,538) | -- |
| 31 December 2016 | 14,445,798 | 19,632,344 | -- | 34,078,142 | 44,062,748 |
| Net book value | | | | | |
| 31 December 2016 | 300,615 | 7,828,558 | 811,251 | 8,940,424 | -- |
| 31 December 2015 | 321,214 | 9,175,392 | -- | -- | 9,496,606 |

a) Capital work in progress pertains to upgrade in IT related equipment.

ARAB NATIONAL INVESTMENT COMPANY

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NOTES TO THE FINANCIAL STATEMENTS

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(Amounts in SR)

10. RELATED PARTY TRANSACTIONS

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. 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 | Shareholder |
| Mutual Funds | Managed Funds |
| Key Management Personnel | Key Management |

The balances resulting from transactions with related parties and included in the accompanying financial statements are as follows:

| | 2016 | 2015 |
|--|--------------------|-------------|
| Cash and cash equivalents includes: | | |
| - Current accounts held with ANB (Note 4) | 26,875,857 | 36,576,000 |
| - Murabaha deposit with ANB (Note 4) | 440,000,000 | 100,000,000 |
| Short-term investments with ANB (Note 5) | -- | 300,000,000 |
| Investment in associate (Note 6) | 222,517,268 | 239,308,030 |
| Available for sale investments in managed funds (Note 7) | 41,093,824 | 36,535,604 |
| Accrued asset management fees includes: | | |
| - Fees from ANB (Note 8) | 464,021 | -- |
| - Fees from Mutual Funds (Note 8) | 12,227,461 | 12,359,803 |
| Accrued corporate finance fee income from ANB (Note 8) | 900,000 | 900,000 |
| Accrued special commission income from ANB (Note 8) | 3,001,889 | 1,203,945 |

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

| | 2016 | 2015 |
|--|---------------------|--------------|
| Asset management fees include: | | |
| - Income from ANB (Note 15) | 1,687,515 | 1,331,232 |
| - Income from Mutual Funds (Note 15) | 28,518,472 | 62,375,677 |
| | 30,205,987 | 63,706,909 |
| Corporate finance fee income from ANB | 4,800,000 | 6,100,000 |
| Special commission income from ANB | 12,821,111 | 3,326,139 |
| Custody fees from ANB | 858,000 | 858,000 |
| Subscription of units in associate | -- | 242,000,000 |
| Shared services allocated by ANB (Note 10a & 18) | (5,822,844) | (5,822,844) |
| Rent expenses allocated by ANB | (2,343,057) | (2,129,356) |
| Meeting fees to independent directors (Note 18) | (250,000) | (250,000) |
| Difference of equitable zakat to foreign shareholder (Note 12) | 1,488,129 | 1,211,801 |
| Salaries and related benefits to key management | (11,456,134) | (11,726,761) |

- a) The Bank provides certain services to the Company as per Service Level Agreement (the "Agreement") signed between the Company and the Bank. These services include support for IT, finance, human resource, internal audit, legal, risk management and other administrative functions. The Bank collects and makes payments for and on behalf of the Company and maintains bank accounts for Company's brokerage customers.

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11. ACCRUED EXPENSES AND OTHER LIABILITIES

| | 2016 | 2015 |
|--|-------------------|------------|
| Accrued administrative fee | 3,736,052 | 1,828,198 |
| Accrued employees' salaries and related benefits | 2,863,182 | 2,833,664 |
| Accrued software maintenance charges | 1,633,800 | 1,031,191 |
| Accrued internet subscription | 1,508,850 | 1,161,300 |
| Accrued communication | 602,263 | 455,254 |
| Professional fees | 392,000 | 438,000 |
| E-brokerage regulatory fees | 72,375 | 581,200 |
| Advance E-brokerage fees received | 46,301 | 36,795 |
| Provision for operational losses | 4,161,649 | 4,861,488 |
| Others | 2,124,408 | 1,670,072 |
| | 17,140,880 | 14,897,162 |

12. ZAKAT AND INCOME TAX PAYABLE

The principal elements of the zakat base are as follows:

| | 2016 | 2015 |
|---|---------------------|-------------|
| Share capital | 400,000,000 | 400,000,000 |
| Statutory reserve, beginning balance | 37,366,744 | 31,222,772 |
| Retained earnings, beginning balance | 234,844,223 | 196,874,269 |
| Adjusted net income | 35,851,095 | 68,351,091 |
| End-of-service indemnities | 26,138,969 | 22,775,246 |
| Provision for operational losses | 4,161,649 | -- |
| Liability for more than one year | 1,640,788 | -- |
| Property and equipment as per income tax law | (21,853,204) | (9,496,606) |
| Zakat base | 718,150,264 | 709,726,772 |
| Saudi shareholders' share of zakat base (60%) | 430,890,158 | 425,836,063 |

Zakat is calculated based on the zakat base. Some of these amounts have been adjusted in arriving at zakat base for the year. Following is the composition of the zakat and tax provision for the year:

| | 2016 | 2015 |
|--|-------------------|------------|
| Zakat provision during the year (Note 12a) | 10,772,254 | 10,645,902 |
| Zakat provision for prior year (Note 12a) | 1,488,129 | 1,211,801 |
| Tax provision during the year (Note 12b) | 2,808,837 | 5,468,087 |
| Total provision | 15,069,220 | 17,325,790 |

a) Zakat

The movement in zakat provision is as follows:

| | 2016 | 2015 |
|--------------------------------------|---------------------|--------------|
| Balance at the beginning of the year | 10,645,902 | 10,503,126 |
| Provision during the year | 10,772,254 | 10,645,902 |
| Provision for prior year | 1,488,129 | 1,211,801 |
| Payment during the year | (12,134,031) | (11,714,927) |
| Balance at the end of the year | 10,772,254 | 10,645,902 |

Prior year zakat payment represents the difference between tax paid to General Authority of Zakat and Tax (GAZT) relating to foreign shareholder of ANB and the equitable zakat amount. These payments have been made based on the approval of ANB as sole shareholder of the Company.

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12. ZAKAT AND INCOME TAX PAYABLE (CONTINUED)**b) Income tax**

The movement in income tax provision is as follows:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 5,468,087 | 4,786,466 |
| Provision during the year | 2,808,837 | 5,468,087 |
| Payment during the year | (5,468,087) | (4,786,466) |
| Balance at the end of the year | <u>2,808,837</u> | <u>5,468,087</u> |

c) Status of assessment

The Company has finalized its zakat and income tax assessments for the years ended 31 December 2008, 2009 and 2010. The Company has also filed the zakat and income tax return for the years from 2011 to 2015, which are still under review with the GAZT.

13. STATUTORY RESERVE

In accordance with the Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

14. END OF SERVICE BENEFITS

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Balance at the beginning of the year | 26,179,760 | 27,802,085 |
| Provision for the year | 3,381,364 | 3,404,513 |
| Provision received from ANB due to employee transfer | 154,517 | -- |
| Payments during the year | (40,791) | (5,026,838) |
| Balance at the end of the year | <u>29,674,850</u> | <u>26,179,760</u> |

15. BROKERAGE

Brokerage income is net-off Nil (2015: 3.97 million) in respect of provision for operational loss and tadawul fee of SR 33.14 million (2015: SR 30.70 million) deducted on behalf of Tadawul.

16. ASSET MANAGEMENT

The asset management fee comprises of following:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|-------------------|-------------------|
| Management fee from: | | |
| - Mutual funds | 27,728,392 | 36,824,636 |
| - Discretionary portfolios | 8,905,911 | 4,654,623 |
| Subscription fees | 790,080 | 51,041 |
| One-time fee from mutual fund | -- | 25,500,000 |
| | <u>37,424,383</u> | <u>67,030,300</u> |

17. REALIZED GAIN ON DISPOSAL OF HELD FOR TRADING INVESTMENTS

During the year, the Company subscribed some shares due to the underwriting commitment provide by the Company. These shares have been subsequently sold to realize a gain of SR 403,892 (2015: Nil).

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18. SALARIES AND RELATED BENEFITS

| | <i>Note</i> | 2016 | 2015 |
|---|-------------|-------------------|-------------|
| Basic salaries | | 26,806,628 | 27,069,715 |
| Staff bonus | 18a | 6,171,046 | 6,256,751 |
| Housing allowances | | 5,109,971 | 5,171,958 |
| End of service benefits | | 3,381,364 | 3,404,513 |
| Social security charges | | 2,509,475 | 2,383,136 |
| Transportation allowances and traveling | | 2,196,094 | 2,527,012 |
| Employees medical expenses | | 1,752,973 | 1,721,950 |
| Training and development | | 89,526 | 133,767 |
| Others | | 3,459,129 | 4,261,006 |
| | | 51,476,206 | 52,929,808 |

- a) Employee cost including bonuses for some senior employees of the Company are borne by ANB and these costs are not charged in the financial statements of the Company.

19. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

| | <i>Note</i> | 2016 | 2015 |
|---------------------------------------|-------------|-------------------|-------------|
| Shared services | 19a | 5,822,844 | 5,822,844 |
| Software maintenance and support | | 3,766,155 | 4,145,010 |
| Communication | | 3,700,836 | 2,775,792 |
| Subscription and license fees | | 2,857,523 | 3,872,467 |
| Penalties | 19b | 1,040,000 | 400,000 |
| Archiving expense | | 673,537 | 673,537 |
| Professional and consultancy fees | | 404,874 | 494,812 |
| Insurance | | 432,193 | 301,599 |
| Meeting fees to independent directors | | 250,000 | 250,000 |
| License fee | | 229,904 | 225,000 |
| Operational losses | | 25,605 | 51,876 |
| Others | | 1,208,367 | 1,574,796 |
| | | 20,411,838 | 20,587,733 |

- a) It is charge under the Service Level Agreement with the Bank and as disclosed in note 10a.
- b) CMA imposed the penalties in 2016 for the non-compliance with Authorized Persons Regulation applicable to the Company in relation to update of KYC information of customers and certain findings raised during CMA inspection.

20. EARNINGS PER SHARE

Earnings per share from operations for the year is calculated by dividing the income from operations for the year by the weighted average number of shares for the year ended 31 December 2016 and 2015, which amounts to 40 million shares.

Earnings per share from net income for the year is calculated by dividing the net income for the year by the weighted average number of shares for the year ended 31 December 2016 and 2015, which amounts to 40 million shares.

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21. SEGMENT INFORMATION

The Company operates solely in the Kingdom of Saudi Arabia. The Company have 13 investment centers across the Kingdom. For management purposes, the Company is organized into business units based on revenue and services provided. The reportable segments are supported with centralized operations, information technology and client relation management which are as follows:

Brokerage

Brokerage operates under the brand of ANB Invest and acts as agent, providing custody and clearing services to clients, providing access to GCC and International exchanges.

Asset management services

The Company's asset management offers investors gateways into the local and international stock markets through conventional equity and Shariah compliant investment funds, trade and money market funds, real estate fund and discretionary portfolios.

Corporate finance

Corporate finance provides wide range of investment banking services to all type of corporates related to public offerings of equity and debt securities, mergers, acquisition and debt restructuring.

Treasury

Treasury manages the Company's investment portfolios and the Company's funding, liquidity, currency and commission rate risks.

Head office

Head office manages future corporate development and controls all other related important functions such as legal, compliance, AML, finance, administration and archiving and human resources.

The Company's management monitors the operating results of the operating segments separately for making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit and loss.

| | Asset management | | | Corporate | | | |
|-------------------------------|-----------------------------|---------------------|--------------------|--------------------|---------------------|---------------------|--|
| | Brokerage | services | finance | Treasury | Head office | Total | |
| 2016 | | | | | | | |
| Revenue | 49,081,408 | 37,424,383 | 7,600,000 | 13,225,003 | 958,022 | 108,288,816 | |
| Expenses | (39,088,926) | (19,408,958) | (6,996,648) | (612,544) | (11,973,439) | (78,080,515) | |
| Income from operations | 9,992,482 | 18,015,425 | 603,352 | 12,612,459 | (11,015,417) | 30,208,301 | |
| Total assets | 5,440,182 | 15,498,913 | 900,000 | 480,095,713 | 257,775,032 | 759,709,840 | |
| Total liabilities | 4,478,558 | 3,759,725 | -- | -- | 52,158,538 | 60,842,548 | |
| 2015 | | | | | | | |
| Revenue | 66,453,343 | 67,030,300 | 6,100,000 | 3,548,583 | 1,027,781 | 144,160,007 | |
| Expenses | (42,641,712) | (18,176,358) | (6,796,083) | (543,321) | (11,870,847) | (80,028,321) | |
| Income from operations | 23,811,631 | 48,853,942 | (696,083) | 3,005,262 | (10,843,066) | 64,131,686 | |
| Total assets | 6,480,044 | 13,262,139 | 900,000 | 437,739,548 | 279,855,660 | 738,237,391 | |
| Total liabilities | 5,788,728 | 1,886,699 | -- | -- | 49,515,484 | 57,190,911 | |

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22. ASSETS UNDER MANAGEMENT

These represent the mutual funds' and discretionary portfolio's assets related to the funds unit holders managed by the Company, which amount to SR 8.33 billion as at 31 December 2016 (2015: SR 5.06 billion). Consistent with its accounting policy, such balances are not included in the Company's financial statements.

23. CLIENTS' CASH ACCOUNTS

The Company was holding clients' cash accounts with ANB, which amount to SR 3.23 billion as at 31 December 2016 (2015: SR 2.28 billion), to be used for investments on the clients' instructions. Consistent with its accounting policy, such balances are not included in the Company's financial statements.

24. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, short-term investments, available for sale investments and other assets and its financial liabilities consist of certain accrued expenses and other liabilities and due to a related party. The fair values of financial instruments are not materially different from their carrying values.

25. RISK MANAGEMENT

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets, which are potentially subject to concentration of credit risk, consist principally of cash at bank and accounts receivables.

With respect to credit risk arising from other financial assets of the Company, including bank current accounts, Murabaha deposits and short-term investments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The table below shows the maximum exposure to credit risk for the components of the balance sheet:

| | Gross maximum exposure | |
|--|-------------------------------|-------------|
| | 2016 | 2015 |
| Cash at banks - current accounts | 26,875,857 | 36,576,000 |
| Murabaha deposits | 440,000,000 | 100,000,000 |
| Short-term investments | -- | 300,000,000 |
| Account receivables classified in other assets | 19,619,987 | 15,466,623 |
| | 486,495,844 | 452,042,623 |

The Company's bank current accounts, Murabaha deposits and short-term investments are placed with a bank of repute and hence the credit risk is limited.

Foreign exchange risk

Currency risk is the risk that the value of a financial investment will fluctuate due to change in foreign exchange rates. Management closely monitors the exchange rate fluctuations and believes that there is minimal risk of losses due to exchange rate fluctuations as the Company primarily deals with Saudi Riyals.

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25. RISK MANAGEMENT (CONTINUED)**Commission rate risk**

The Company is not subject to commission rate risk as its commission bearing bank Murabaha deposits and short-term investments carry fixed rate commission.

Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate because of changes in market prices.

The Company's investments are exposed to market price risk arising from uncertainties about future prices. The Company manages this risk through diversification of its investment portfolio in terms of geographical distribution and industry concentration.

Liquidity risk

The Company collates the projected cash flow and liquidity profiles of its financial assets and liabilities. It maintains a portfolio of short-term liquid assets to cover requirements, largely consisting of certain liquid placement with financial institutions.

Liquid assets include cash and cash equivalents, marketable securities, investment in associate and account receivables.

All financial liabilities other than end of service benefits are contractually payable on a current basis. The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled:

| | Less than 12 months | More than 12 months | 2016 | Less than 12 months | More than 12 months | 2015 |
|---|--------------------------------|--------------------------------|--------------------|--------------------------------|--------------------------------|-------------|
| Cash and cash equivalents | 466,930,857 | -- | 466,930,857 | 136,631,000 | -- | 136,631,000 |
| Short-term investments | -- | -- | -- | 300,000,000 | -- | 300,000,000 |
| Account receivables classified in other assets (Note 25a) | 19,619,987 | -- | 19,619,987 | 15,466,623 | -- | 15,466,623 |
| Investment in associate | -- | 222,517,268 | 222,517,268 | -- | 239,308,030 | 239,308,030 |
| Available for sale investments | -- | 41,093,824 | 41,093,824 | -- | 36,535,604 | 36,535,604 |
| Total assets | 486,550,844 | 263,611,092 | 750,161,936 | 452,097,623 | 275,843,634 | 727,941,257 |
| Accrued expenses and other liabilities | 17,140,880 | -- | 17,140,880 | 14,897,162 | -- | 14,897,162 |
| End-of-service benefits | -- | 29,674,850 | 29,674,850 | -- | 26,179,760 | 26,179,760 |
| Total liabilities | 17,140,880 | 29,674,850 | 46,815,730 | 14,897,162 | 26,179,760 | 41,076,922 |
| Net | 469,409,964 | 233,936,242 | 703,346,206 | 437,200,461 | 249,663,874 | 686,864,335 |

- a) These amounts will not reconcile to the balance sheet of the Company as there are other non-financial assets refer note 8 for breakup.

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26. COMMITMENTS

At 31 December, the Company has the following commitments:

| | 2016 | 2015 |
|---------------------------|------------------|-------------|
| Underwriting commitments | -- | 634,500,000 |
| Capital commitments | 5,154,747 | 1,875,000 |
| Premises rent commitments | 7,905,836 | 9,666,978 |

27. CAPITAL REGULATORY REQUIREMENT AND CAPITAL ADEQUACY

The Company's objectives when managing capital are, to comply with the minimum capital requirements set by CMA, to safeguard the Company's ability to continue as a going concern and to maintain an adequate capital base throughout the year.

The Company monitors the capital adequacy and related ratios using the framework established by CMA effective starting January 1, 2013. Accordingly, the Company's Pillar-1 requirement related to Tier capital ratio, minimum capital requirement and capital adequacy ratio are as follows:

| | 2016 | 2015 |
|---------------------------------------|----------------|---------|
| | SR '000 | SR '000 |
| Capital Ratio: | | |
| Tier-1 Capital | 689,919 | 672,211 |
| Tier-2 Capital | 9,394 | 8,835 |
| Total Capital | 699,313 | 681,046 |
| Minimum Capital: | | |
| Credit Risk | 195,442 | 210,424 |
| Market Risk | -- | -- |
| Operational Risk | 19,520 | 20,076 |
| Total Minimum Capital | 214,962 | 230,500 |
| Surplus Capital | 484,351 | 450,546 |
| Capital Adequacy Ratio (times) | 3.25 | 2.95 |

Tier-1 Capital: Tier-1 capital of the Company consists of paid up share capital, capital contribution in the form of reserves and audited retained earnings. Increase in the capital is due to the contribution of current-year profit.

Tier-2 Capital: Tier-2 capital of the Company consists of revaluation reserve related to available for sale investments. Increase in the capital is due to increase in value of investments for the current-year along with increased value of investment made during the current year.

Credit Risk: Credit exposures from non-trading activities of the Company is from bank current accounts, Murabaha deposits, short-term investments, investment in associate, available for sale investments, other current receivables, fixed assets and off balance sheet commitments.

Market Risk: The Company as of the year-end does not have any trading exposure in the market except for the underwriting commitment related to an IPO. However, the Company is not exposed to any market risk as of year-end.

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27. CAPITAL REGULATORY REQUIREMENT AND CAPITAL ADEQUACY (CONTINUED)

Operational Risk: Operational risk is because of loss resulting from inadequate internal processes, people and systems or from external events. Operational risk is computed using Basic Indicator or Standardized approach. However, the Company has computed the operational risk based on the Basic Indicator approach.

Capital Adequacy Ratio: As per the CMA guidelines, the Company is required to maintain a capital base not less than the total minimum capital of the Company. However, the Company is adequately capitalized with surplus capital over and above the minimum capital requirement of the Company.

28. SUBSEQUENT EVENT

Increase in share capital and amendment in By-laws

Subsequent to the year-end i.e. 31 December 2016, the shareholders in Extra-Ordinary General Meeting on Jumada II 6, 1438H (corresponding to 5 March 2017) has increased the share capital of the Company from SR 400 million to SR 1 Billion divided with a face value of SR 10 per share. The increase in share capital is to support margin lending activities to be provided by the Company. Moreover, the By-laws of the Company has been amended to account for the change in Regulation of Companies, for the appropriation of the 10% of the net income as a statutory reserves until the reserve equals to 30% instead of 50%.

Proposed distribution

On March 28, 2017 the Board recommended to pay cash distribution of SAR 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 the general assembly.

29. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on Jumada II 29, 1438H corresponding to March 28, 2017.