

Al-Arabi US Equity Fund – In Voluntary Liquidation

(Managed by Arab National Investment Company)

FINANCIAL STATEMENTS

31 DECEMBER 2017

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Al-Arabi US Equity Fund- In Voluntary Liquidation

Opinion

We have audited the financial statements of Al-Arabi US Equity Fund- In Voluntary Liquidation (the "Fund") managed by Arab National Investment Company (the "Fund Manager"), which comprise the balance sheet as at 31 December 2017, and the statement of operations, statement of cash flows and statement of changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

Basis for Opinion

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

Emphasis of a matter

Without qualifying our opinion, we draw attention to note 3 to the financial statements. As stated therein, the Fund Manager has commenced voluntary liquidation of the Fund on 28 March 2018. Accordingly, the financial statements have been prepared on a break up basis.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and the applicable provisions of the Investment Funds Regulations issued by the Board of the Capital Market Authority, and the Fund's terms and conditions and the information memorandum, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Al-Arabi US Equity Fund - In Voluntary Liquidation (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting. When such use is inappropriate and management uses an alternative basis of accounting, we conclude on the appropriateness of management's use of the alternative basis of accounting. We also evaluate the adequacy of the disclosures describing the alternative basis of accounting and reasons for its use. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

for Ernst & Young



Rashid S. AlRashoud
Certified Public Accountant
License No. 366



Riyadh: 16 Rajab 1439H
(2 April 2018)

Al-Arabi US Equity Fund – In Voluntary Liquidation

BALANCE SHEET

As at 31 December 2017

	<i>Note</i>	2017 USD	2016 USD
ASSETS			
Bank balance		476	14,135
Trading investments	5	746,479	7,724,030
		<hr/>	<hr/>
		746,955	7,738,165
		<hr/>	<hr/>
LIABILITY			
Accrued expenses		7,928	36,161
		<hr/>	<hr/>
UNITHOLDERS' FUND			
Net assets		739,027	7,702,004
		<hr/>	<hr/>
Units in issue		36,289	441,644
		<hr/>	<hr/>
Per unit value		20.37	17.44
		<hr/>	<hr/>

The accompanying notes 1 to 11 form part of these financial statements.

Al-Arabi US Equity Fund – In Voluntary Liquidation

STATEMENT OF OPERATIONS

For the year ended 31 December 2017

	<i>Notes</i>	2017 USD	2016 USD
INCOME			
Trading income, net	6	734,671	418,839
EXPENSES			
Management fees	7	78,739	122,716
Other fees	7	16,158	14,452
		94,897	137,168
NET INCOME FROM OPERATIONS		639,774	281,671

The accompanying notes 1 to 11 form part of these financial statements.

Al-Arabi US Equity Fund – In Voluntary Liquidation

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 USD	2016 USD
OPERATING ACTIVITIES		
Net income from operations	639,774	281,671
Adjustment for:		
Movement in unrealised losses (gains) on trading investments	2,698,071	(318,175)
	<u>3,337,845</u>	<u>(36,504)</u>
Changes in operating assets and liabilities:		
Trading investment, net	4,279,480	(224,826)
Accrued expenses	(28,233)	1,677
	<u>7,589,092</u>	<u>(259,653)</u>
Net cash from (used in) operating activities		
FINANCING ACTIVITIES		
Proceeds from units sold	680,797	416,000
Value of units redeemed	(8,283,548)	(160,000)
	<u>(7,602,751)</u>	<u>256,000</u>
Net cash (used in) from financing activities		
DECREASE IN BANK BALANCE	<u>(13,659)</u>	<u>(3,653)</u>
Bank balance at the beginning of the year	14,135	17,788
BANK BALANCE AT THE END OF THE YEAR	<u><u>476</u></u>	<u><u>14,135</u></u>

The accompanying notes 1 to 11 form part of these financial statements.

Al-Arabi US Equity Fund – In Voluntary Liquidation

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 December 2017

	2017 USD	2016 USD
NET ASSET VALUE AT THE BEGINNING OF THE YEAR	7,702,004	7,164,333
NET INCOME FROM OPERATIONS	639,774	281,671
CHANGES FROM UNIT TRANSACTIONS		
Proceeds from units sold	680,797	416,000
Value of units redeemed	(8,283,548)	(160,000)
Net change from unit transactions	(7,602,751)	256,000
NET ASSET VALUE AT THE END OF THE YEAR	739,027	7,702,004

UNIT TRANSACTIONS

Transactions in units for the year ended 31 December are summarised as follows:

	2017 Units	2016 Units
UNITS AT THE BEGINNING OF THE YEAR	441,644	426,893
Units sold	37,081	24,482
Units redeemed	(442,436)	(9,731)
Net (decrease) increase in units	(405,355)	14,751
UNITS AT THE END OF THE YEAR	36,289	441,644

The accompanying notes 1 to 11 form part of these financial statements.

1 GENERAL

Al-Arabi US Equity Fund (the “Fund”) is an open-ended fund. The investment objective of the fund is long term growth of capital and income through investment in a broadly diversified portfolio of US equity securities of large companies. The Fund was established on 3 Rabi Awal 1422H (corresponding to 26 May 2001) by Arab National Bank (the “Bank”).

In accordance with the Capital Market Authority’s (“CMA”) decision No. 1-83-2005 dated 21 Jumada Awal 1426H (corresponding to 28 June 2005) issued by the CMA Board in connection with regulations relating to Authorised Persons, the asset management operations were transferred to the Arab National Investment Company (the “Fund Manager”), a wholly owned subsidiary of the Bank, effective 1 January 2008.

The books and records of the Fund are maintained in US Dollars.

2 REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) issued by the CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) and effective from 6 Safar 1438H (corresponding to 6 November 2016) by the New Investment Fund Regulations (“Amended Regulations”) published by the Capital Market Authority on 16 Sha’aban 1437H (corresponding to 23 May 2016), detailing requirements for all funds within the Kingdom of Saudi Arabia.

3 LIQUIDATION OF THE FUND

As per the terms and conditions of the Fund, the Fund Manager has decided to voluntarily liquidate the Fund and has obtained the approval from the CMA through letter dated 6 Jumad Thani 1439H (corresponding to 22 February 2018). The Fund Manager has also notified all the unitholders of the Fund for the voluntarily liquidation. The Fund Manager has commenced the liquidation of the Fund effective from 28 March 2018. Accordingly, these financial statements have been prepared on a break up basis. All assets have been stated at their net realizable value and liabilities have been stated at their settlement amounts.

4 SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention

The financial statements are prepared on a break up basis.

Revenue recognition

Dividend income is recognised when declared (i.e. when the Fund’s right to receive the dividend is established).

Trading income includes unrealised gains and losses from changes in fair value, realised gains and losses from sale of trading investments and dividends declared. Realised gains and losses on trading investments sold are determined on a weighted average cost basis.

Special commission income is recognised on an effective yield basis.

Investment valuation

Equity investments which are purchased for trading purposes are valued at their market price as at the valuation date. Investments in mutual funds are valued on the basis of net asset values published by the Fund Manager.

Investment transactions

Investments transactions are accounted for as of the trade date.

Zakat and income tax

Zakat and income tax are the obligations of the Unitholders and are not provided for in the accompanying financial statements.

Al-Arabi US Equity Fund – In Voluntary Liquidation

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

5 TRADING INVESTMENTS

Investments held for trading comprise the following as at 31 December:

<i>Description</i>	<i>Cost USD</i>	<i>Market value USD</i>	<i>Unrealised gain USD</i>
2017			
<i>Mutual Fund:</i>			
SGMF US Large Companies Equity USD Institutional Fund	<u>379,971</u>	<u>746,479</u>	<u>366,508</u>
2016			
<i>Mutual Fund:</i>			
SGMF US Large Companies Equity USD Institutional Fund	<u>4,659,451</u>	<u>7,724,030</u>	<u>3,064,579</u>

SEI Investments (Europe) Ltd. acts as sub manager of the Fund and custodian of the SGMF US Large Companies Equity USD Institutional Fund. SGMF US Large Companies Equity USD Institutional Fund assigns more than one manager and allocates certain percentages of the fund's assets to them depending on the market conditions. Each manager selects the most appropriate securities. At least 65% (2016: 65%) of the fund's assets are invested in US equity and equity-related securities, including warrants and convertible securities, issued by large companies (market capitalization in excess of USD 1 billion), traded on recognised market exchanges in the U.S.

Mutual funds can be redeemed at any time throughout the week.

6 TRADING INCOME, NET

	<i>2017 USD</i>	<i>2016 USD</i>
Realised gains on sale of trading investments, net	3,432,742	100,664
Movement in unrealised (losses) gains on trading investments	(2,698,071)	318,175
	<u>734,671</u>	<u>418,839</u>

7 TRANSACTIONS WITH RELATED PARTIES

A subscription fee up to 2% may be charged to the subscribers by the Fund Manager upon subscription.

The Fund pays a management fee calculated at a maximum rate of 1.75% per annum on the total net assets at each valuation date. In addition, the Fund Manager also charges a fee up to a maximum rate of 1.50% per annum calculated on the total net assets at each valuation date to meet other expenses of the Fund.

The management fees amounting to USD 78,739 (2016: USD 122,716) and other fees amounting to USD 16,158 (2016: USD 14,452) reflected in the statement of operations, represent the fees charged by the Fund Manager as described above.

The Bank acts as the Fund's banker.

Al-Arabi US Equity Fund – In Voluntary Liquidation

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

7 TRANSACTIONS WITH RELATED PARTIES (continued)

Unitholders' account at 31 December included units held as follows:

	2017 Units	2016 Units
Held by the Bank	-	306,667
Held by funds under same management	25,579	124,267
Total	25,579	430,934

8 RISK MANAGEMENT

Special commission rate risk

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market rates. The Fund does not have any floating special commission rate bearing financial assets or liabilities as at 31 December 2017 and is not subject to special commission rate risk.

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.

The Fund is exposed to credit risk on its bank balances. The Fund Manager seeks to limit its credit risk by monitoring credit exposures and dealing with reputed counterparties only. The table below shows the maximum exposure to credit risk for the components of the balance sheet:

	2017 USD	2016 USD
Bank balance	476	14,135

The Bank has an investment grade credit rating.

Equity price risk

Equity price risk is the risk that the fair value of equities changes as the result of changes in the levels of equity indices and the value of individual stocks. According to the Fund's management, the effect on the statement of operations (as a result of a change in fair value of investments held in the trading portfolio) due to a reasonable possible change in equity indices, with all other variables held constant, is as follows:

The sensitivity analysis presented below is based on a historical comparison of unit price and underlying index volatilities. This sensitivity analysis relies upon assumptions including a correlation of the investments of the Fund with the index composition.

Market index	Change in equity price 2017 %	Effect on statement of operations 2017 USD	Change in equity price 2016 %	Effect on statement of operations 2016 USD
Russell 1000	10	71,361	10	790,188

8 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

The Fund's terms and conditions provide for the redemptions of units twice a week and it is, therefore, exposed to the liquidity risk of meeting Unitholders redemptions. As at 31 December 2017, the Fund's trading investment is considered to be readily realisable, as its investments in mutual funds can be redeemed any time throughout the week. The Fund Manager monitors liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available including bank facilities to meet commitments as they arise.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Fund's functional currency is the US Dollar. As the Fund's financial assets and financial liabilities are denominated in its functional currency, the Fund is not subject to currency risk.

9 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. The Fund's financial assets consist of bank balances and trading investments. Financial liabilities consist of accrued expenses. 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. For investments traded in an active market, fair value is determined by reference to quoted market bid prices. Investments in mutual funds are valued on the basis of net asset values published by the Fund Manager.

Trading investments are carried at their fair value. The fair values of other financial instruments are not materially different from their carrying value.

10 LAST VALUATION DAY

The last valuation day of the year was 31 December 2017 (2016: 28 December 2016).

11 FUND BOARD APPROVAL

The financial statement of the fund for the year 2017 was approved by the Board of Directors of the fund on 29 March 2018.