

ARAB NATIONAL INVESTMENT COMPANY
(Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2019
Together with the
INDEPENDENT AUDITOR'S REPORT

ARAB NATIONAL INVESTMENT COMPANY
(Closed Joint Stock Company)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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To the shareholders
Arab National Investment Company
Riyadh, Kingdom of Saudi Arabia

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Arab National Investment Company (“the Company”), which comprise the statement of financial position as at December 31, 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information from notes 1 to 33.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants (“SOCPA”).

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 Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company’s financial statements and we have fulfilled our 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.

Other matter

The financial statements of the Company for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on March 28, 2019.

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

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

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

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Company’s financial reporting process.

Independent Auditor's Report to the Shareholders of Arab National Investment Company (Continued)**Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte and Touche & Co.
Chartered Accountants

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Waleed bin Moh'd Sobahi
License No. 378
Shaban 5, 1441
March 29, 2020



ARAB NATIONAL INVESTMENT COMPANY
(Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As of 31 December 2019
(Amounts in SAR)

	<i>Notes</i>	<u>2019</u>	<u>2018</u>
ASSETS			
Non-current assets			
Property and equipment	5	6,261,808	751,962
Intangible assets	6	8,563,632	8,239,797
Investments at fair value through profit or loss	7	67,675,830	37,072,296
Investment in an associate	8	210,533,352	218,120,892
Deferred tax asset	15	2,819,016	2,485,941
Total non-current assets		<u>295,853,638</u>	<u>266,670,888</u>
Current assets			
Prepaid expenses and other assets	9	33,679,123	37,795,653
Receivable against margin lending	10	715,560,054	628,664,870
Cash and cash equivalents	11	1,135,296,065	1,113,260,879
Total current assets		<u>1,884,535,242</u>	<u>1,779,721,402</u>
TOTAL ASSETS		<u>2,180,388,880</u>	<u>2,046,392,290</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	17	1,000,000,000	1,000,000,000
Statutory reserve	18	50,845,680	47,755,364
Retained earnings		333,575,664	306,233,048
Total equity		<u>1,384,421,344</u>	<u>1,353,988,412</u>
Non-current liabilities			
Lease liabilities	13	4,147,412	-
Employees' defined benefit obligations	16	25,669,647	25,084,000
Total non-current liabilities		<u>29,817,059</u>	<u>25,084,000</u>
Current liabilities			
Short term loans	12	714,965,658	627,377,131
Lease liabilities	13	2,009,834	-
Accrued expenses and other liabilities	14	25,903,099	14,851,854
Zakat and income tax	15 b	23,271,886	25,090,893
Total current liabilities		<u>766,150,477</u>	<u>667,319,878</u>
Total liabilities		<u>795,967,536</u>	<u>692,403,878</u>
TOTAL EQUITY AND LIABILITIES		<u>2,180,388,880</u>	<u>2,046,392,290</u>

The accompanying notes 1 to 33 form an integral part of these financial statements.

ARAB NATIONAL INVESTMENT COMPANY

(Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

As of 31 December 2019

(Amounts in SAR)

	<i>Notes</i>	<u>2019</u>	<u>2018</u>
Brokerage income, net	19	27,173,894	30,686,829
Asset management	19	35,568,417	38,549,354
Special commission income on margin lending		35,868,925	33,561,856
Corporate finance		5,250,000	6,175,000
Dividend income	7	320,000	320,000
Custody fees		858,000	878,537
Advisory fee	20	21,050,000	14,731,321
Special commission income on deposits		23,451,357	18,328,631
Unrealized gain / (loss) on fair value through profit or loss investments	7	603,534	(3,112,857)
Total revenue		<u>150,144,127</u>	<u>140,118,671</u>
Salaries and related benefits	21	(51,715,457)	(48,888,781)
Premises related expenses		(1,469,618)	(3,787,053)
Depreciation and amortization	5,6	(3,506,870)	(1,431,535)
Other general and administrative expenses	22	(17,697,885)	(18,280,886)
Total expenses		<u>(74,389,830)</u>	<u>(72,388,255)</u>
Net operating profit for the year		<u>75,754,297</u>	<u>67,730,416</u>
Finance cost		(19,182,469)	(13,761,087)
Share of income from an associate	8	277,460	1,524,545
Profit before Zakat and income tax		<u>56,849,288</u>	<u>55,493,874</u>
Zakat and income tax charge for the year	16	<u>(25,946,128)</u>	<u>(24,929,092)</u>
Net profit for the year		<u>30,903,160</u>	<u>30,564,782</u>
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit and loss</i>			
Re-measurement of defined benefit obligation	16	5,831	1,444,000
Other comprehensive income for the year		<u>5,831</u>	<u>1,444,000</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>30,908,991</u>	<u>32,008,782</u>
Earnings per share			
Basic and diluted (Saudi Riyals per share)	23	<u>0.31</u>	<u>0.31</u>

The accompanying notes 1 to 33 form an integral part of these financial statements.

ARAB NATIONAL INVESTMENT COMPANY
(Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
For The Year Ended 31 December 2019
(Amounts in SAR)

	<i>Note</i>	Share capital	Statutory reserve	Fair value reserve investments	Retained earnings	Total
Balance at 01 January 2018		1,000,000,000	44,698,886	8,485,062	273,641,511	1,326,825,459
Effect of the adoption of IFRS 9		-	-	(8,485,062)	8,107,186	(377,876)
Adjusted balance at 01 January 2018		<u>1,000,000,000</u>	<u>44,698,886</u>	-	<u>281,748,697</u>	<u>1,326,447,583</u>
Net profit for the year		-	-	-	30,564,782	30,564,782
Actuarial gains		-	-	-	1,444,000	1,444,000
Total comprehensive income for the year		-	-	-	32,008,782	32,008,782
Dividend distribution approved		-	-	-	(18,923,738)	(18,923,738)
Zakat and income tax recovered		-	-	-	14,455,785	14,455,785
Net distribution		-	-	-	(4,467,953)	(4,467,953)
Transfer to statutory reserve		-	3,056,478	-	(3,056,478)	-
Balance at 31 December 2018		<u>1,000,000,000</u>	<u>47,755,364</u>	<u>-</u>	<u>306,233,048</u>	<u>1,353,988,412</u>
Balance at 01 January 2019		1,000,000,000	47,755,364	-	306,233,048	1,353,988,412
Effect of the adoption of IFRS 16	4.2	-	-	-	(476,059)	(476,059)
Adjusted balance at 01 January 2019		<u>1,000,000,000</u>	<u>47,755,364</u>	-	<u>305,756,989</u>	<u>1,353,512,353</u>
Net profit for the year		-	-	-	30,903,160	30,903,160
Actuarial gains		-	-	-	5,831	5,831
Total comprehensive income for the year		-	-	-	30,908,991	30,908,991
Transfer to statutory reserve		-	3,090,316	-	(3,090,316)	-
Balance at 31 December 2019		<u>1,000,000,000</u>	<u>50,845,680</u>	<u>-</u>	<u>333,575,664</u>	<u>1,384,421,344</u>

The accompanying notes 1 to 33 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 2019
(Amounts in SAR)

	<i>Notes</i>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities			
Income before Zakat and income tax		56,849,288	55,493,874
<i>Adjustments for:</i>			
Depreciation and amortization	5,6	3,506,870	1,431,535
Interest expense on lease liabilities	13	248,436	-
Provision for retirement benefits	16	3,171,509	3,304,921
Unrealized (gain) / loss on investments at fair value through profit or loss	7	(603,534)	3,112,857
Impairment charge on margin lending	10.1	46,462	1,717
Share in profit from associate	8	(277,460)	(1,524,545)
		<u>62,941,571</u>	<u>61,820,359</u>
Changes in operating assets and liabilities:			
Increase in receivable against margin lending		(86,941,646)	(69,933,065)
Decrease in prepaid expenses and other assets		4,116,530	3,519,011
Increase in accrued expenses and other liabilities		11,051,245	836,889
Cash used in operations		<u>(8,832,300)</u>	<u>(3,756,806)</u>
Interest on lease liabilities paid		(248,436)	-
Zakat and income taxes paid	15	(28,098,210)	(14,215,075)
Employees' defined benefit obligation paid	16	(2,580,031)	(4,260,921)
Net cash used in operating activities		<u>(39,758,977)</u>	<u>(22,232,802)</u>
Cash flows from investing activities			
Purchase of property and equipment and intangibles	5,6	(1,764,957)	(1,494,859)
Purchase of investments at fair value through profit or loss	7	(30,000,000)	-
Dividends received	8	7,865,000	-
Net cash used in investing activities		<u>(23,899,957)</u>	<u>(1,494,859)</u>
Cash flows from financing activities			
Lease liabilities principal paid		(1,894,407)	-
Net distribution		-	(4,467,953)
Proceeds from borrowings		87,588,527	69,833,940
Net cash generated from financing activities		<u>85,694,120</u>	<u>65,365,987</u>
Net increase in cash and cash equivalents		22,035,186	41,638,326
Cash and cash equivalents at the beginning of the year		1,113,260,879	1,071,622,553
Cash and cash equivalents at the end of the year	11	<u>1,135,296,065</u>	<u>1,113,260,879</u>
Supplemental non-cash information:			
Adoption of IFRS 16 on 1 January 2019		(7,403,115)	-
Adoption of IFRS 9 on 1 January 2018		-	8,107,186
Re-measurement of employees' defined benefit obligation		5,831	1,444,000

The accompanying notes 1 to 33 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 2019
(Amounts in SAR)

1. GENERAL INFORMATION

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 (“ANB” or “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 23 June 2013). Such change was approved according to the Ministerial Resolution No. 317/G dated Muharram 19, 1436 H (corresponding to 12 November 2014), and a revised commercial registration was issued on 17 Rabi Al Awal 1436 H (corresponding to 8 January 2015).

The objective of the Company as approved by CMA Board of Commissioners on 28 Muharram 1437 H (corresponding to 10 November 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. Based on the directive of CMA through the letter dated 10 Rabi Al Awal 1437 H (corresponding to 21 December 2015), the Company has obtained the margin lending facility from Arab National Bank with effective from 1 April 2017. Therefore, the Company has amended its objectives to include margin lending financing.

In 2011, Arab National 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.

2. BASIS OF PREPARATION

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization of Certified Public Accountants (SOCPA) (here and after refer to as “IFRS as endorsed in KSA”).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and judgment. Refer Note 3 for the areas involving a higher degree of judgment and estimates.

2. BASIS OF PREPARATION (CONTINUED)

b) Basis of measurement

The financial statements have been prepared on a going concern basis under historical cost convention except for the following items:

- i. Financial assets classified as “at fair value through profit or loss” are measured at fair value;
- ii. Investment in associate is accounted for using equity method; and
- iii. Defined benefit obligations are measured at present value of future obligations using the Projected Unit Credit Method.

c) Functional and presentational currency

The financial statements are presented in Saudi Riyals; which represents the functional currency of the Company. All financial information is presented in SAR, except where disclosed.

3. USE OF JUDGEMENTS, ESTIMATES AND ASSUMPTION

In the application of the Company's accounting policies, which are described in note 4, the management of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that, period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where management has used judgments, estimates and assumptions are as follows:

- Measurement of expected credit loss allowance
- Depreciation on property plant and equipment
- Defined benefits obligations – employees’ end of service benefits
- Lease liabilities discount rate
- Going concern

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 *New standards or amendments issued not yet effective and not early adopted by the Company*

The Company has chosen not to early adopt the following new standards which have been issued but not yet effective. Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2020:

ARAB NATIONAL INVESTMENT COMPANY
(CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019
(Amounts in SAR)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 *New standards or amendments issued not yet effective and not early adopted by the Company (continued)*

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IFRS 9 <i>Financial Instruments</i> , IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and IFRS 7 <i>Financial Instruments Disclosures</i> relating to interest rate benchmark reform	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2 <i>Share-based payment</i> , IFRS 3 <i>Business Combinations</i> , IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i> , IFRS 14 <i>Regulatory Deferral Accounts</i> , IAS 1 <i>Presentation of Financial Statements</i> , IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> , IAS 34 <i>Interim Financial Reporting</i> , IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> , IAS 38 <i>Intangible Assets</i> , IFRIC 12 <i>Service Concession Arrangements</i> , IFRIC 19 <i>Extinguishing of Financial Liabilities with Equity Instruments</i> , IFRIC 20, IFRIC 22 <i>Stripping Costs in the Production Phase of a Surface Mine</i> , and SIC-32 <i>Intangible Assets – Web Site Costs</i> to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
Amendment to IFRS 3 <i>Business Combinations</i> relating to definition of a business	1 January 2020
Amendments to IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> relating to definition of material	1 January 2020
IFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures (2011)</i> relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture	Effective date deferred indefinitely. Adoption is still permitted.

The Company anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Company in the period of initial application.

4.2 *Adoption of new standards*

The Company has adopted the following accounting standards and the impact of the adoption of these standards is explained below.

ARAB NATIONAL INVESTMENT COMPANY
(CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019
(Amounts in SAR)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Adoption of new standards (continued)

Adoption of IFRS 16 – Leases

The Company adopted IFRS 16 ‘Leases’, the standard replacing the previous guidance on leases, including IAS 17 ‘Leases’, IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 “Operating Leases – Incentives”, and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the statement of financial position, unless the term is 12 months or less or the lease is for a low value asset item. Thus, the classification required under IAS 17 “Leases” into operating or finance leases is eliminated for Lessees.

For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a Right of use leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life of the leased asset.

The Company has opted for the modified retroactive application (Option 2B) permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16, the leased assets were measured at the amount of the lease liability, using an applicable commission rate at the time of first time application.

The following is a reconciliation of the off-balance sheet lease obligations as of 31 December 31 2018 to the recognized lease liabilities as of 1 January 2019.

	SAR
Off-balance sheet lease obligations as of 31 December 2018	8,725,790
Discounted using the lessee’s incremental borrowing rate as at 1 January 2019	(846,616)
Discounted lease liabilities due to initial application of IFRS 16 as of 1 January 2019	<u>7,879,174</u>

As at 1 January 2019, the Company has recognised SAR 7,403,115 of right-of-use assets and SAR 7,879,174 of lease liabilities upon transition to IFRS 16. The amount of SAR 476,059 is recognised in retained earnings.

On initial recognition, at inception of the contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

Right of use leased assets

The Company applies a cost model and therefore measures right of use leased assets at cost, less any accumulated depreciation and accumulated impairment losses adjusted for any re-measurement of the lease liabilities for lease modifications. Under Option 2B, Right of Use leased assets would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, or other expenses, such amounts are added to the right of use leased asset value.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Adoption of new standards (continued)

Adoption of IFRS 16 – Leases

Lease liabilities

On initial recognition, the Company recognizes a discounted lease liability equal to the present value of all remaining payments to the lessor. After initial recognition, the Company measures the lease liability by increasing the carrying amount to reflect special commission on the lease liability, reducing the carrying amount to reflect the lease payments made including prepayments, and re-measuring the carrying amount to reflect any re-assessment or lease modification if applicable.

Amendments to IAS 19: Plan amendment, curtailment or settlement

The amendments to IAS 19 applicable from 1 January 2019 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The effect of the amendments to IAS 19 did not have a significant impact on net income for the year ended 31 December 2019.

Amendments to IFRS 9: Prepayment features with negative compensation

The amendments to IFRS 9 applicable from 1 January 2019 address the accounting for prepayment features with negative compensations. The effect of the amendments to IFRS 9 did not have a significant impact on net income for the year ended 31 December 2019.

Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures

Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The effect of the amendments to IAS 28 did not have a significant impact on the financial statement for the year ended 31 December 2019.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The effect of the amendments to IFRIC 23 did not have a significant impact on the financial statement for the year ended 31 December 2019.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2019.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Accounting policies

Investment in associates

The Company's interests in equity-accounted investee comprise interest in an associate.

Associates are those entities in which the Company has significant influence, but no control or joint control, over the financial and operating policies.

Interest in an associate is accounted for using the equity method. Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognise the Company's share of the post-acquisition profits or losses of the investee in profit or loss, and the Company's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

When the Company's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has a corresponding obligation.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees is changed where necessary to ensure consistency with the policies adopted by the Company.

The carrying amount of equity-accounted investments is tested for impairment. The net investment in an associate is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the net investment (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows from the net investment that can be reliably estimated. Objective evidence that the net investment is impaired includes observable data that comes to the attention of the entity about the following loss events:

- significant financial difficulty of the equity-accounted investee;
- a breach of contract, such as a default or delinquency in payments by the equity-accounted investee;
- the entity, for economic or legal reasons relating to its equity-accounted investee's financial difficulty, granting to the associate or joint venture a concession that the entity would not otherwise consider;
- it becoming probable that the equity-accounted investee will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for the net investment because of financial difficulties of the equity-accounted investee.

The entire carrying amount is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Accounting policies(continued)

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.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents includes bank balances and deposits with original maturities of three months or less, if any.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any, except freehold land and capital work in progress which are stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items including borrowing costs. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Where major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these intended use assets, on the same basis as other property assets, commences when the assets are ready for their.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Disposal of asset is recognized when significant risks and rewards incidental to ownership have been transferred to buyers. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other operating expenses / income' in the statement of profit or loss.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Accounting policies (continued)

Property and equipment (continued)

Depreciation is charged to the statement of profit or loss using the straight line method whereby the cost of an operating asset less its estimated residual value is written off over its estimated useful life. Depreciation on addition is charged from the month in which the asset is available for use and on disposals up to the month of disposal. Depreciation method, useful lives and residual values are reviewed annually.

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

	Years
Leasehold improvements	Over lease period or 10 years, whichever is shorter
Furniture, fixtures and office equipment	4 years

Capital work-in-progress is stated at cost less impairment losses, if any, and is not depreciated until the asset is brought into commercial operations and available for intended use.

Intangible assets

Recognition and measurement

These represent software held for use in the normal course of the business and are stated at cost less accumulated amortization and accumulated impairment losses, if any. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in the statement of profit or loss. The estimated useful life of software is 4 to 10 years.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Impairment on non-financial assets

The carrying amounts of the Company's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Accounting policies (continued)

Impairment on non-financial assets (continued)

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in statement of profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses in respect of non-financial assets recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost in the statement of profit or loss.

Employee benefits

Defined benefits obligation- employees' benefits

The Company operates a defined benefit plan under the Saudi Arabian Law applicable based on employees' accumulated periods of service at the date of the statement of financial position. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method as per IAS 19 Employee benefits.

The cost of providing benefits under the Company's defined benefit plan is determined using the projected unit credit method by a professionally qualified actuary and arrived at using actuarial assumptions based on market expectations at the date of the statement of financial position. These valuations attribute entitlement benefits to the current period (to determine current service cost), and to the current and prior periods (to determine the present value of defined benefit obligations). Re-measurements, comprising of actuarial gains and losses and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through the statement of other comprehensive income in the period in which these occur. Re-measurements are not reclassified to the statement of profit or loss in subsequent periods.

Past service costs are recognized in the statement of profit or loss on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Company recognizes restructuring-related costs

Financing cost is calculated by applying the discount rate to the net defined benefit liability or asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Accounting policies (continued)

Employee benefits (continued)

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss is recognized in the statement of profit or loss during the period in which the settlement or curtailment occurs. The defined benefit liability in the statement of financial position comprises the present value of the defined benefit obligation (using a discount rate).

The Company's net obligation in respect of employees' end-of-service benefits is calculated by estimating the amount of future benefits that employees have earned in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements, comprising of actuarial gains and losses, are recognized immediately in the opening balance with a corresponding debit or credit to retained earnings through other comprehensive income, in the period in which they occur. Re-measurements are not reclassified to the statement of profit or loss in subsequent periods. The Company recognizes the following changes in the defined benefits obligation under 'Salaries and employee related expenses' in the profit and loss account:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Interest expense

The calculation of defined benefits obligation is performed annually by a qualified actuary using the projected unit credit method.

Fixed compensation

The fixed compensation includes salaries, allowances and benefits. Salaries are set in relation to market rates to attract, retain and motivate talented individuals. Salary administration is based on key processes such as job evaluation, performance appraisal and pay scales structure. The competitiveness of pay scales is monitored and maintained through participation in regular market pay surveys.

Assets under management

The Company offers assets management services to its customers, which include management of certain mutual funds. Such assets are not treated as assets of the Company and accordingly are not included in these financial statements.

Clients' cash accounts

The Company holds cash in clients' cash accounts with a local Saudi bank to be used for investments on their behalf. Such balances are not included in the financial statements.

Zakat and income tax

Zakat

The Company's Saudi shareholders are subject to Zakat in accordance with the Regulations of the General Authority for Zakat and Taxation ("GAZT") as applicable in the Kingdom of Saudi Arabia. The Zakat charge is computed on the Zakat base. An estimate of Zakat arising therefrom is provided by a charge to the statement of profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Accounting policies (continued)

Zakat and income tax (continued)

Income tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. The Company's foreign shareholders are subject to income tax in accordance with Regulations of Zakat and Income Tax as applicable in the Kingdom of Saudi Arabia. Income tax is computed on adjusted net income. An estimate of income tax arising there from is provided by a charge to the statement of profit or loss.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Company and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Contingent liabilities

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; all should be assessed at reporting date and disclosed under contingent liabilities in the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Accounting policies (continued)

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are reviewed regularly by the Company's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Company's Chief Operating Decision Maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Dividends

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

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current / non-current classification. An asset is current when it is:

- expected to be realized or intended to sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within twelve months after the reporting period; or
- cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Accounting policies (continued)

Revenue from contracts with customers

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

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

Based on the above five steps, the revenue recognition policy for each major revenue stream is as follow:

Asset management fees

Asset management fees are recognized based on a fixed percentage of net assets under management (“asset-based”) subject to applicable terms and conditions and service contracts with customers and funds. The Company attributes the revenue from management fees to the services provided during the year, because the fee relates specifically to the Company’s efforts to transfer the services for that year. As asset management fees are not subject to clawbacks, the management does not expect any significant reversal of revenue previously recognized.

Advisory and corporate finance fee

Advisory and corporate finance fee is recognized based on services rendered under the applicable service contracts using the five-step approach to revenue recognition above.

Brokerage income

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

Dividend income

Dividend income is recognized when the right to receive dividend is established.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Accounting policies (continued)

Financial assets and financial liabilities

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in the statement of profit or loss.

Classification and measurement of financial assets

On initial recognition, a financial asset is classified and measured at amortized cost, FVOCI or FVTPL.

Financial asset at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and commission on the principal amount outstanding.

Financial asset at fair value through other comprehensive income ("FVOCI")

A financial asset is measured at fair value through FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principle and interest on the principle amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial asset at fair value through profit or loss ("FVTPL")

All financial assets not classified as measured at amortized cost or FVOCI as described above are measure at FVTPL.

Business model assessment

The Company assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Accounting policies (continued)

Business model assessment (continued)

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Company;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and commission

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Commission / Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Accounting policies (continued)

Classification of financial liabilities

The Company classifies its financial liabilities at amortized cost unless it has designated liabilities at FVTPL.

Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses (ECL) associated with its receivable balances carried at amortized cost. The Company recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

Loss allowance for account receivables are always measured at an amount equal to life time ECL. Life time ECL are the ECL that results from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECL is the maximum contractual period over which the Company is exposed to credit risk.

The Company considers a financial asset to be in default when the counter party is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any). ECL are discounted at the effective interest rate of the financial asset.

Loss allowance for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

De-recognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

From 1 January 2019, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Accounting policies (continued)

Margin lending receivables

Margin lending receivables are recognized when the cash is advanced to the customers who trade in the capital markets. The cash advance is collateralized against equity securities purchased by the borrowers using these funds as well as any cash accounts that may be held by the customers.

The outstanding receivable will decrease when either the borrowers liquidate their holdings or remit cash to reduce the utilization.

Short term loans

Short term loans are recognized at the proceeds received, net of transaction costs incurred. Further, upfront fee that was deducted in advance by the bank, is deferred and presented netting of the principle amount of the loan. Such deferred amount is amortized over the term of the loan using the effective interest rate method, which is not materially different from applying the prevailing interest rate. Finance costs on the short term loans are charged to the statement of income

Leases

Policy applicable from 1 January 2019

The Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The lease liability is presented as a separate line item in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The Company applies IAS 36 to determine whether a right-of-use asset is impaired. The right-of-use of assets are presented within property and equipment in the statement of financial position.

Leases under IAS 17, applicable before 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Company does not have any finance leases. Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of operating lease.

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5. PROPERTY AND EQUIPMENT

	<u>Leasehold improvements</u>	<u>Furniture and fixtures</u>	<u>Office equipment</u>	<u>Total</u>
For the year ended 31 December 2019				
<u>Cost</u>				
Balance as at 1 January 2019	14,865,506	903,965	6,967,367	22,736,838
Effect of adoption of IFRS 16 on 1 January 2019	7,403,115	-	-	7,403,115
Additions	234,438	30,900	32,200	297,538
Balance as at 31 December 2019	<u>22,503,059</u>	<u>934,865</u>	<u>6,999,567</u>	<u>30,437,491</u>
<u>Accumulated depreciation</u>				
Balance as at 1 January 2019	14,539,203	848,482	6,597,191	21,984,876
Charge for the year	2,053,274	17,543	119,990	2,190,807
Balance as at 31 December 2019	<u>16,592,477</u>	<u>866,025</u>	<u>6,717,181</u>	<u>24,175,683</u>
<u>Net book value at 31 December 2019</u>	<u>5,910,582</u>	<u>68,840</u>	<u>282,386</u>	<u>6,261,808</u>
For the year ended 31 December 2018				
<u>Cost</u>				
Balance as at 1 January 2018	14,790,393	850,155	6,642,517	22,283,065
Additions	75,113	53,810	324,850	453,773
Balance as at 31 December 2018	<u>14,865,506</u>	<u>903,965</u>	<u>6,967,367</u>	<u>22,736,838</u>
<u>Accumulated depreciation</u>				
Balance as at 1 January 2018	14,490,732	840,429	6,478,155	21,809,316
Charge for the year	48,471	8,053	119,036	175,560
Balance as at 31 December 2018	<u>14,539,203</u>	<u>848,482</u>	<u>6,597,191</u>	<u>21,984,876</u>
<u>Net book value at 31 December 2018</u>	<u>326,303</u>	<u>55,483</u>	<u>370,176</u>	<u>751,962</u>

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5. PROPERTY AND EQUIPMENT (CONTINUED)

Property and equipment as at 31 December 2019, includes Right of Use (ROU) assets, net as follows:

	Cost	Addition	Accumulated depreciation	Net book value
Leasehold improvements	<u>7,403,115</u>	<u>172,478</u>	<u>1,992,680</u>	<u>5,582,913</u>

As of 1 January 2019, the remaining lease term of leases included in ROU assets ranges from 1 to 9 years. The payment for rentals is made on monthly basis and is paid in advance and arrears.

6. INTANGIBLE ASSETS

	<u>2019</u>	<u>2018</u>
Cost		
Balance at beginning of the year	23,266,345	22,225,259
Additions	<u>1,639,898</u>	<u>1,041,086</u>
Balance at end of the year (6.1)	<u>24,906,243</u>	23,266,345
Accumulated amortization		
Balance at beginning of the year	15,026,548	13,770,573
Charge for the year	<u>1,316,063</u>	<u>1,255,975</u>
Balance at end of the year	<u>16,342,611</u>	<u>15,026,548</u>
Net book value as at the end of the year	<u>8,563,632</u>	<u>8,239,797</u>

6.1 Intangible assets include capital work in progress of SAR 177,186 (2018: SAR 2,203,664).

7. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Al Mubarak SAR Trade Fund (7.1)	Al Mubarak Diyar Jeddah Real Estate Fund	Al Mubarak Real Estate Income Fund	Total
Cost	18,054,701	9,645,390	4,000,000	31,700,091
Cumulative change in fair value	2,981,854	4,041,418	(1,047,533)	5,975,739
Additions during the year	30,000,000	-	-	30,000,000
Fair value 31 December 2019	<u>51,036,555</u>	<u>13,686,808</u>	<u>2,952,467</u>	<u>67,675,830</u>
Fair value 31 December 2018	20,250,353	13,310,638	3,511,305	37,072,296
Additions during the year	30,000,000	-	-	30,000,000
Unrealised gains / (losses)	786,202	376,170	(558,838)	603,534
Fair value 31 December 2019	<u>51,036,555</u>	<u>13,686,808</u>	<u>2,952,467</u>	<u>67,675,830</u>

7.1. During the year ended 31 December 2019, the Company has received dividend income amounting to SAR 320,000 (2018: SAR 320,000) from Al Mubarak Real Estate Income Fund.

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8. INVESTMENT IN AN ASSOCIATE

Details of the Company's associate at the end of the reporting period is as follows:

<u>Name of associate</u>	<u>% of ownership Interest</u>	<u>2019</u>	<u>2018</u>
ANBI Business Gate Fund	25.47%	210,533,352	218,120,892

In 2015, the Company has subscribed 25.47% of the units of the ANBI Business Gate Fund (the Fund) amounting to SAR 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 original Fund's duration expires on 11 January 2020, however, on 10 December 2019, the Fund's board of directors resolved to extend the Fund's duration by additional six months ending on 13 July 2020. The said resolution was approved by the Unitholders. The Company has accounted for its share in the Fund on financial information prepared on a basis other than going concern. Up to the date of these financial statements, the Unitholders of the Fund did not hold any further meetings after 10 December 2019 meeting referred to above on whether to liquidate the Fund or extend its duration for further periods. Based on management's available information and best estimates, the value of the Company's investment in the Fund as at 31 December 2019 will be realizable.

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 has the ability to exercise significant influence over the Fund as it manages the Fund through an agreement between the Company as Fund Manager and the Fund's unitholders.

The Fund has been accounted for using equity method in these financial statements as set out in the Company's accounting policies in note 4.

Dividends received from associate below represent the actual amounts attributable and hence received by the Company. The other summary information that precedes the reconciliation to the Company's carrying amount represents amounts included in the IFRS financial statements of the associate, not the entity's share of these amounts, although they are adjusted to reflect fair value adjustments upon acquisition or accounting policy alignments.

Summarized financial information of the associate is set out below. The summarized financial information below represents amounts shown in associate's financial statements.

	2019	2018
	(Unaudited)	(Audited)
Current assets	41,537,624	22,469,968
Non-current assets	1,572,398,635	1,601,876,392
Total assets	1,613,936,259	1,624,346,360
Current liabilities	37,967,310	31,118,956
Non-current liabilities	749,375,498	732,822,776
Net assets	826,593,451	860,404,628
Revenue	114,029,370	113,699,591
Total comprehensive income	1,089,360	6,167,848
Dividends paid during the year	30,875,000	33,250,000

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8. INVESTMENT IN AN ASSOCIATE (CONTINUED)

The movement of investment in an associate is as follow:

	<u>2019</u>	<u>2018</u>
Balance as at 1 January	218,120,892	216,596,347
Share of income from an associate	277,460	1,524,545
Share of dividends paid	<u>(7,865,000)</u>	-
Balance as at 31 December	<u><u>210,533,352</u></u>	<u><u>218,120,892</u></u>

9. PREPAID EXPENSES AND OTHER ASSETS

	<u>2019</u>	<u>2018</u>
Accrued asset management fees	25,883,201	26,374,630
Accrued special commission income on deposits	2,169,163	1,742,195
Accrued corporate finance fees	1,417,500	6,758,750
Prepaid expenses	2,802,571	2,157,958
Others	1,406,688	762,120
	<u><u>33,679,123</u></u>	<u><u>37,795,653</u></u>

10. RECEIVABLE AGAINST MARGIN LENDING

The Company extended the margin-financing facilities to its customers to invest in the Saudi stock exchange (Tadawul) who wish to actively trade on a leveraged basis, secured by the tradable securities with an original maturity within 12 months. The facilities are reviewed at least on an annual basis.

	<u>2019</u>	<u>2018</u>
Receivable against margin lending	713,438,256	626,291,006
Accrued special commission income	<u>2,547,853</u>	<u>2,753,457</u>
	715,986,109	629,044,463
Expected credit loss allowance	<u>(426,055)</u>	<u>(379,593)</u>
Balance at the end of year	<u><u>715,560,054</u></u>	<u><u>628,664,870</u></u>

10.1 The movement in the expected credit loss allowance for receivable against margin lending is as follows:

	<u>2019</u>	<u>2018</u>
Opening balance	379,593	-
Impact of adopting IFRS 9	-	377,876
Charge for the year	<u>46,462</u>	<u>1,717</u>
Balance at the end of year	<u><u>426,055</u></u>	<u><u>379,593</u></u>

Expected credit loss allowance represents the Stage 1 provision.

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11. CASH AND CASH EQUIVALENTS

	<u>2019</u>	<u>2018</u>
Cash on hand	35,000	55,000
Cash held at banks – current accounts	44,011,065	19,205,879
Cash held at banks – demand deposit	1,091,250,000	1,094,000,000
	<u>1,135,296,065</u>	<u>1,113,260,879</u>

11.1 Cash at banks are maintained with Arab National Bank (note 25).

11.2 Demand deposit carries commission at rates ranging from 1.9% to 2.26% (2018: 1.6% to 1.9%).

12. SHORT TERM LOANS

The Company had obtained a short term revolving loan facility on 1 April 2017 from Arab National Bank to facilitate margin lending to be renewed on 12 months basis and carrying a commission rate within a range of 2.6% to 2.9% per annum (2018: 1.5% to 2.5% per annum).

13. LEASE LIABILITIES

	<u>2019</u>	<u>2018</u>
Balance as at 1 January 2019	7,879,174	-
Additions	172,479	-
Accretion of interest	248,436	-
Payments	(2,142,843)	-
Balance as at 31 December 2019	6,157,246	-
Current	2,009,834	-
Non-current	4,147,412	-
	<u>6,157,246</u>	<u>-</u>

The Company does not face a significant liquidity risk with regard to its liabilities. Lease liabilities are monitored by the Company's management.

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14. ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>2019</u>	<u>2018</u>
Accrued employees' salaries and related benefits	5,910,984	4,194,024
Due to ANB (a & note 25)	4,223,064	-
Accounts payable	2,115,417	837,059
Accrued communication	1,914,169	1,536,084
Accrued internet subscription	1,714,614	1,234,930
Accrued insurance	1,558,266	1,169,479
Accrued software maintenance charges	1,037,795	655,795
Accrued shared services	880,000	880,000
Payable to Tadawul	835,237	445,442
Accrued social security	455,358	324,102
Accrued administrative fee	437,785	437,785
Professional fees	385,415	727,200
VAT payable	1,415,103	272,195
Others	3,019,892	2,137,759
	<u>25,903,099</u>	<u>14,851,854</u>

a) This amount represents regulatory payments on behalf of the Company as disclosed in note 25.

15. ZAKAT AND INCOME TAX

a) Zakat and income tax charge

The principal elements of the Zakat base are as follows:

	<u>2019</u>	<u>2018</u>
Share capital	1,000,000,000	1,000,000,000
Statutory and other reserve, beginning balance	47,755,364	44,698,886
Retained earnings, beginning balance	305,756,989	281,748,697
Adjusted net income	63,819,101	59,579,793
Employees' retirement benefits	22,503,969	23,223,079
Provisions	379,593	514,300
Property and equipment as per income tax law	(30,693,028)	(14,467,726)
Zakat base	<u>1,409,521,988</u>	<u>1,395,297,029</u>
Saudi shareholders' share of Zakat base (60%)	<u>845,713,193</u>	<u>837,178,217</u>

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:

	<u>2019</u>	<u>2018</u>
Zakat charge during the year	21,142,830	20,929,455
Reversal of Zakat charge for prior year	(95,828)	(144,426)
Tax charge during the year	5,232,201	4,161,438
Reversal of tax charge for prior period	-	(424,321)
Deferred tax (reversal) /charge	(333,075)	406,946
Total charge	<u>25,946,128</u>	<u>24,929,092</u>

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15. ZAKAT AND INCOME TAX (CONTINUED)

b) Movement in Zakat and income tax payable

The movement in Zakat and income tax payable is as follows:

	<u>Zakat</u>	<u>Income tax</u>	<u>Total 2019</u>	<u>Zakat</u>	<u>Income tax</u>	<u>Total 2018</u>
Balance at the beginning of the year	20,929,455	4,161,438	25,090,893	11,354,243	3,429,579	14,783,822
Charge for the year	21,142,830	5,232,201	26,375,031	20,929,455	4,161,438	25,090,893
Charge / (reversal) for prior year	(95,828)	-	(95,828)	(144,426)	(424,321)	(568,747)
Payments during the year	(20,707,847)	(7,390,363)	(28,098,210)	(11,209,817)	(3,005,258)	(14,215,075)
Balance at the end of the year	<u>21,268,610</u>	<u>2,003,276</u>	<u>23,271,886</u>	20,929,455	4,161,438	25,090,893

Payments during the year include an accelerated tax payment related to 2019 amounting to SR 3,167,298 (2018: SR 2,388,201).

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 2018, which are still under review with the GAZT. Zakat and income tax return for the year ended 31 December 2019 will be submitted subsequent to the financial statements issuance date.

d) Deferred tax

The following is the analysis of deferred tax assets/liabilities presented in the statement of financial position:

	<u>2019</u>	<u>2018</u>
Deferred tax asset	<u>2,819,016</u>	<u>2,485,941</u>

	<u>2019</u>		
	<u>Opening balance</u>	<u>Recognized in profit and loss account</u>	<u>Closing balance</u>
<i>Deferred tax assets in relation to:</i>			
Property and equipment and intangible assets	438,077	86,881	524,958
Employees' defined benefit obligation	2,006,720	253,254	2,259,974
Provision for operational losses	41,144	(7,060)	34,084
	<u>2,485,941</u>	<u>333,075</u>	<u>2,819,016</u>

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15. ZAKAT AND INCOME TAX (CONTINUED)

	2018		
	<u>Opening balance</u>	<u>Recognized in profit and loss account</u>	<u>Closing balance</u>
<i>Deferred tax assets in relation to:</i>			
Property and equipment and intangible assets	419,182	18,895	438,077
Employees' terminal benefits	2,198,720	(192,000)	2,006,720
Provision for operational losses	274,985	(233,841)	41,144
	<u>2,892,887</u>	<u>(406,946)</u>	<u>2,485,941</u>

16. RETIREMENT BENEFIT PLANS

Defined benefit plans

This benefit is mandatory for all Saudi Arabian based employees under the Saudi Arabian labor law and the Company's policies applicable to employees' accumulated period of service and payable upon termination, resignation or retirement.

The Company's net obligations in respect of employees' end of service benefits is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. This amount is then discounted using an appropriate discount rate to determine the present value of the Company's net obligation.

The Company faces the following risks on account of defined benefit plans:

Salary increase risk – The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

Discount rate fluctuation - The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. A decrease in corporate bond yields will increase plan liabilities.

Longevity risk – The present value of defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability

The most recent actuarial valuation of the present value of the defined benefit obligation was carried out at 31 December 2019. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	<u>Valuation at</u>	
	<u>2019</u>	<u>2018</u>
Discount rate	3.4%	4.8%
Salary increase rate	3.0%	4.0%
Normal retirement age	9.47	9.49
Duration of liability	11.8	11.7

The economic and demographic assumptions used in the valuation are unbiased, mutually compatible and best estimates as per the requirements of IAS 19. Financial assumptions are based on market expectations as at the valuation date. These assumptions are as follows:

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16. RETIREMENT BENEFIT PLANS (CONTINUED)

Discount rate used

This rate was used to calculate the actuarial present value of the projected benefits. As per International Accounting Standard 19 "Employee Benefits", the rate used to discount employee benefit obligations is determined by reference to the market yields at the end of the reporting period. In case of the Company, the discount rate was derived with reference to US dollar denominated Kingdom of Saudi Arabia government traded bonds with maturities consistent with the estimated term of the employee benefit obligation.

Rate of growth in salary

The rate of 3% (2018:4%) has been assumed as the long-term salary growth rate and is broadly consistent with the benchmark salary increment rate of the region.

Sensitivity analysis

Reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the employee benefit obligation as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate + / - 1%	<u>(2,359,018)</u>	<u>2,770,811</u>	(2,301,000)	2,700,000
Salary increase rate + / - 1%	<u>2,753,476</u>	<u>(2,389,898)</u>	2,694,000	<u>(2,339,000)</u>

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

Risk associated with defined benefit plans

Salary increase risk

The End of Service Benefit Scheme is a defined benefit scheme with benefits based on last drawn salary. Therefore, the liabilities of the scheme are sensitive to the salary increases.

Amounts recognized in the statements of profit or loss and other comprehensive income in respect of these defined benefit plans are as follows:

	<u>2019</u>	<u>2018</u>
Past service cost, net of past service gain	<u>(381,798)</u>	665,222
Current service cost	<u>2,436,962</u>	1,613,562
Net interest expense	<u>1,116,345</u>	1,026,137
Components of defined benefit costs recognized in profit and loss	<u>3,171,509</u>	<u>3,304,921</u>
Re-measurement on the net defined benefit liability:		
Actuarial (losses) / gains arising from changes in financial assumptions	<u>(451,058)</u>	1,430,350
Actuarial gains arising from experience adjustments	<u>456,889</u>	13,650
Components of re-measurement of defined benefit recognized in other comprehensive loss	<u>5,831</u>	<u>1,444,000</u>

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16. RETIREMENT BENEFIT PLANS (CONTINUED)

Past service cost relates to the employees transferred during the year from the Arab National Bank. The current service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss. The re-measurement of the net defined benefit liability is included in other comprehensive income.

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

	<u>2019</u>	<u>2018</u>
Employees' defined benefit obligations	<u>25,669,647</u>	<u>25,084,000</u>

Movements in the present value of the defined benefit obligation in the current year were as follows:

	<u>2019</u>	<u>2018</u>
Opening employees' defined benefit obligation	25,084,000	27,484,000
Past service cost, net of past service gain	(381,798)	665,222
Current service cost	2,436,962	1,613,562
Net interest expense	1,116,345	1,026,137
Re-measurement (gains)/losses:		
Actuarial losses / (gains) arising from changes in financial assumptions	451,058	(1,430,350)
Actuarial gains arising from experience adjustments	(456,889)	(13,650)
Benefits paid	<u>(2,580,031)</u>	<u>(4,260,921)</u>
Closing defined benefit obligation	<u>25,669,647</u>	<u>25,084,000</u>

Significant actuarial assumptions for the determination of the defined obligation are discount rate and expected salary increase. The above sensitivity analyses have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

17. SHARE CAPITAL

The share capital of the Company, amounting to SAR 1,000 million, is divided into 100,000,000 shares of SAR 10 each (2018: SAR 1,000 million divided into 100,000,000 shares of SAR 10 each).

	<u>Ownership percentage</u>	
	<u>2019</u>	<u>2018</u>
Arab National Bank	<u>100%</u>	<u>100%</u>

18. STATUTORY RESERVES

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's bylaws, the Company establishes 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.

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19. REVENUE

a. Brokerage

The brokerage income comprises of following:

	<u>2019</u>	<u>2018</u>
Gross brokerage income	111,570,362	120,651,259
Less: Tadawul fees	(35,969,940)	(38,787,182)
Discounts	(48,123,036)	(51,233,761)
E-brokerage fees, net	(303,492)	56,513
	<u>27,173,894</u>	<u>30,686,829</u>

b. Asset management

The asset management fee comprises of following:

	<u>2019</u>	<u>2018</u>
Management and administrative fee from:		
- Mutual funds	27,265,340	28,013,505
- Discretionary portfolios	8,293,632	10,517,383
Subscription fees	9,445	18,466
	<u>35,568,417</u>	<u>38,549,354</u>

20. ADVISORY FEE

The fee is received from Arab National Bank in consideration of transaction advisory services provided by the Company.

21. SALARIES AND RELATED BENEFITS

	<u>2019</u>	<u>2018</u>
Basic salaries	27,497,846	25,366,041
Staff bonus (a)	6,099,598	5,904,197
Housing allowances	4,840,319	4,734,064
Defined benefit obligations (note 16)	3,171,509	3,304,921
Social security charges	2,498,414	2,385,165
Employees medical expenses	2,300,794	1,955,931
Transportation and travelling allowances	1,886,529	1,951,145
Cost of living allowance	1,681,445	1,713,643
Others	1,739,003	1,573,674
	<u>51,715,457</u>	<u>48,888,781</u>

- a) Certain senior management employees of the Company receives bonuses from the ultimate shareholder of the Company and thus not reflected in the Company's books and records.

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22. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2019</u>	<u>2018</u>
Shared services cost allocated from ANB (a)	6,422,844	6,422,844
Software maintenance and support	3,809,981	3,754,127
Communication	1,656,144	2,332,301
Subscription fees	1,855,226	1,984,138
Professional and consultancy fees	684,900	976,205
Insurance	448,153	448,660
Meeting fees to independent directors	370,000	370,000
License fee	304,855	315,015
Others	2,145,782	1,677,596
	<u>17,697,885</u>	<u>18,280,886</u>

a) It is charge under the Service Level Agreement with the ANB and as disclosed in note 25.

23. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income for the period attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares during the period.

Diluted earnings per share is calculated by dividing the net income attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<u>2019</u>	<u>2018</u>
Profit from operations, net of finance cost	56,571,828	53,969,329
Net profit attributable to equity holders	30,903,160	30,564,782
Weighted average number of ordinary shares	100,000,000	100,000,000
Basic and diluted earnings per share attributable to income from operations	<u>0.57</u>	<u>0.54</u>
Basic and diluted earnings per share attributable to net income attributable to equity holders	<u>0.31</u>	<u>0.31</u>

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24. SEGMENT INFORMATION

The Company operates solely in the Kingdom of Saudi Arabia. The Company have 11 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.

Margin lending

The Company offers the investors in stock market with a short term financing facility collateralized by the shares of those securities.

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 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.

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24. SEGMENT INFORMATION (CONTINUED)

<u>2019</u>	<u>Brokerage</u>	<u>Margin lending</u>	<u>Asset management services</u>	<u>Corporate finance</u>	<u>Treasury</u>	<u>Head office</u>	<u>Total</u>
Revenue	27,173,894	35,868,925	35,568,417	5,250,000	23,451,357	22,831,534	150,144,127
Expenses*	(31,446,363)	(21,408,310)	(21,032,561)	(7,270,515)	-	(12,414,550)	(93,572,299)
Income from operations	(4,272,469)	14,460,615	14,535,856	(2,020,515)	23,451,357	10,416,984	56,571,828
Total assets	4,200,375	715,560,054	25,981,847	1,417,500	1,093,419,163	339,809,941	2,180,388,880
Total liabilities	930,889	714,965,658	259,757	-	-	79,811,232	795,967,536
<i>2018</i>							
Revenue	30,686,829	33,561,856	38,549,354	6,175,000	18,328,631	12,817,001	140,118,671
Expenses*	(33,024,404)	(16,276,387)	(20,600,962)	(7,024,805)	-	(9,222,784)	(86,149,342)
Income from operations	(2,337,575)	17,285,469	17,948,392	(849,805)	18,328,631	3,594,217	53,969,329
Total assets	3,655,112	628,664,870	26,374,630	6,758,750	1,095,724,195	285,214,733	2,046,392,290
Total liabilities	1,232,372	627,377,131	5,823	-	-	63,788,552	692,403,878

* Total expenses and income from operations are not matching with the statement of profit or loss because finance cost has been taken to margin lending for the purpose of segment reporting.

25. 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. Ultimate parent of the Company is Arab National Bank. During the year, the Company transacted with the following related parties. The terms of those are approved by the management of the Company. Details of transactions between the Company and other related parties are disclosed as below.

	<u>Name</u>	<u>Relationship</u>
	Arab National Bank	Parent Company
	Mutual Funds	Managed Funds
	Key Management Personnel	Key Management

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25. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	<u>2019</u>	<u>2018</u>
Assets:		
Cash and cash equivalents includes:		
- Current accounts held with ANB (Note 11)	44,011,065	19,205,879
- Demand deposit held with ANB (Note 11)	1,091,250,000	1,094,000,000
Margin receivable	-	4,364,163
Investment in associate (Note 8)	210,533,352	218,120,892
Investments in managed funds (Note 7)	67,675,830	37,072,396
Accrued asset management fees includes:		
- Fees from ANB	1,312,787	1,318,332
- Fees from mutual funds	23,670,276	24,403,821
Accrued corporate finance fee income from ANB (Note 9)	1,417,500	6,758,750
Accrued special commission income on deposits from ANB (Note 9)	2,169,163	1,742,195
Liabilities:		
Regulatory payments on behalf of the Company (Note 14)	4,223,064	-
Short term loans from ANB	714,965,658	627,377,131

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

	<u>2019</u>	<u>2018</u>
Income:		
Asset management fees include:		
- Income from ANB	5,262,043	4,729,084
- Income from mutual funds	27,274,785	28,031,971
	32,536,828	32,761,055
Corporate finance fee income from ANB	5,250,000	6,175,000
Special commission income on deposits from ANB	23,451,357	18,328,631
Custody fees from ANB	858,000	878,537
Dividend income from Fund under management	320,000	320,000
Advisory Fee (Note 19)	21,050,000	14,731,321
Expenses:		
Shared services cost allocated by ANB (Note 21)	(6,422,844)	(6,422,844)
Rent expenses allocated by ANB	-	(2,232,715)
Meeting fees to independent directors (Note 21)	(370,000)	(370,000)
Salaries and related benefits to key management	(13,426,009)	(11,745,054)
Equity:		
Difference of equitable Zakat to foreign shareholder	-	(4,467,953)

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25. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

	<u>2019</u>	<u>2018</u>
Salaries and other benefits	12,419,664	10,864,578
Post-employment benefits	1,006,345	880,476
	<u>13,426,009</u>	<u>11,754,054</u>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

26. FINANCIAL RISK MANAGEMENT

Financial risk management objectives

The Company's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including interest rate risk and other price risk), credit risk and liquidity risk.

The Corporate Treasury function reports quarterly to the Company's risk management committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

Market risk

'Market Risk' is the risk that changes in market prices – such as commission rates, foreign exchange rates, equity prices and credit spreads – will affect the Company's income or the fair value of its holdings in financial instruments.

Commission rate risk

Commission rate risk arises from the possibility that changes in market commission rates will affect future profitability or the fair value of the financial instruments. The Company's is subject to commission rate risk on its commission bearing liability i.e. Short term loans. The Company monitors the changes in commission rates on regular basis. The sensitivity of the expense is the effect of assumed changes in commission rates, with all other variables held constant, on the Company's expense for the period based on the floating rate financial liability held at the period end.

	<u>2019</u>		<u>2018</u>	
	SAR'000			
Commission expense	+/- 1%	+/- 7,150	+/- 1%	+/- 6,273

Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Company's activities either internally or externally at the Company's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to unitholders.

The primary responsibility for the development and implementation of control over operational risks rests with the Risk Committee. This responsibility is supported by the development of overall standard for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- documentation of controls and procedures
- requirements for
 - o appropriate segregation of duties between various functions, roles and responsibilities;
 - o reconciliation and monitoring of transactions; and
 - o periodic assessment of operational risks faced.
- the adequacy of controls and procedures to address the risks identified;
- compliance with regulatory and other legal requirements;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance if this is effective.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The largest customer of the Company, the Company does not have significant credit risk exposure to any single counterparty. Concentration of credit risk did not exceed 20% of gross monetary assets at any time during the year. Concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at any time during the year.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Collateral held as security and other credit enhancements

The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Below sets out details of additional undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The contractual maturity is based on the earliest date on which the Company may be required to pay.

	2019				
	No fixed maturity	Within 3 months	3 months to 1 year	More than 1 year	Total
Short term loans	-	-	714,965,658	-	714,965,658
Lease liabilities	-	502,459	1,507,376	4,147,412	6,157,247
Accrued expenses and other liabilities	-	25,517,683	385,415	-	25,903,098
Zakat and income tax	-	-	23,271,886	-	23,271,886
Employees' defined benefit obligation	-	-	-	25,669,647	25,669,647
Total financial liabilities	-	26,020,142	740,130,335	29,817,059	795,967,536
	2018				
	No fixed maturity	Within 3 months	3 months to 1 year	More than 1 year	Total
Short term loans	-	-	627,377,131	-	627,377,131
Accrued expenses and other liabilities	1,870,527	12,254,127	727,200	-	14,851,854
Zakat and income tax	-	-	25,090,893	-	25,090,893
Employees' defined benefit obligation	-	-	-	25,084,000	25,084,000
Total financial liabilities	1,870,527	12,254,127	653,195,224	25,084,000	692,403,878

The following table details the Company's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Company's liquidity risk management as the liquidity is managed on a net asset and liability basis.

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2019				Total
	No fixed maturity	Within 3 months	3 months to 1 year	More than 1 year	
Investments at FVTPL	67,675,830	-	-	-	67,675,830
Investment in an associate	210,533,352	-	-	-	210,533,352
Other current assets	30,876,552	-	-	-	30,876,552
Receivable against margin lending	-	43,942,237	671,617,817	-	715,560,054
Cash and bank balances	1,135,261,065	-	-	-	1,135,261,065
Total financial assets	1,444,346,799	43,942,237	671,617,817	-	2,159,906,853

	2018				Total
	No fixed maturity	Within 3 months	3 months to 1 year	More than 1 year	
Investments at FVTPL	37,072,296	-	-	-	37,072,296
Investment in an associate	218,120,892	-	-	-	218,120,892
Other current assets	35,602,422	-	-	-	35,602,422
Receivable against margin lending	-	99,527,262	529,137,608	-	628,664,870
Cash and bank balances	1,113,205,879	-	-	-	1,113,205,879
Total financial assets	1,404,001,489	99,527,262	529,137,608	-	2,032,666,359

27. FAIR VALUE MEASUREMENT

Fair value measurement

The management considers that the fair values of the financial instruments carried at amortized cost are not significantly different from their carrying amount as at the reporting date.

Valuation models

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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27. FAIR VALUE MEASUREMENT (CONTINUED)

The table below presents the financial instruments measured at their fair values as of reporting date based on the fair value hierarchy:

	2019			
	Level 1	Level 2	Level 3	Total
Investments at FVTPL	64,723,363	-	2,952,467	67,675,830
Total	64,723,363	-	2,952,467	67,675,830
	2018			
	Level 1	Level 2	Level 3	Total
Investments at FVTPL	33,560,991	-	3,511,305	37,072,296
Total	33,560,991	-	3,511,305	37,072,296

Carrying value of other financial assets such as cash and cash equivalents, margin finance receivables, other receivables and financial liabilities approximate their fair value and are classified as level 3. During the period, no transfer in fair value hierarchy has taken place for the investments at fair value through profit or loss.

Other financial instruments such as, cash and cash equivalents and receivables. These are short-term financial assets and financial liabilities whose carrying amounts approximate fair value, because of their short-term nature and the good credit quality of counterparties.

28. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY

The Capital Market Authority (the "CMA") has issued Prudential Rules (the "Rules") dated 30 December 2012 (corresponding to 17 Safar 1434H). According to the Rules, the CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under these Rules.

In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

	2019	2018
	SAR'000	SAR'000
Capital base		
Tier-1 capital	1,373,039	1,343,262
Total capital base	1,373,039	1,343,262
Minimum capital requirement		
Market risks	8,166	-
Credit risks	324,772	315,413
Operational risks	23,393	21,537
Total minimum capital requirement	356,331	336,950
Surplus	1,016,708	1,006,312
Capital adequacy ratio	3.85	3.99

The above information is based on the respective Capital Adequacy Model (CAM) that was provided by CMA as of the corresponding financial statements reporting years.

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28. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY (CONTINUED)

- a) The capital base of the Company comprise of Tier 1 capital only. The definition of Tiers is as follows:
- Tier-1 capital consists of paid-up share capital, retained earnings, share premium (if any), reserves excluding revaluation reserves, with certain deductions as per the Rules.
 - Tier-2 capital consists of subordinated loans, cumulative preference shares and revaluation reserves, with certain deductions as per the Rules.
 - The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in the Rules.
- b) The Company's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard the Company's ability to continue as a going concern, and to maintain a strong capital base.

29. CONTINGENT LIABILITIES

At 31 December, the Company has the following commitments:

	<u>2019</u>	<u>2018</u>
Un-utilized margin lending limits	<u>473,653,891</u>	<u>470,949,832</u>
Capital commitments	<u>3,512,048</u>	<u>4,197,518</u>
Premises rent commitments	<u>-</u>	<u>3,720,956</u>

30. ASSETS HELD UNDER 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.

Assets under management

These represents Mutual Funds' and Discretionary portfolio assets managed by the Company, which amount to SAR 5.8 billion as at 31 December 2019 (2018: SAR 5.1 billion).

Clients' cash accounts

The Company was holding clients' cash accounts with ANB, which amount to SAR 2.6 billion as at 31 December 2019 (2018: SAR 2.6 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.

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31. EVENTS AFTER THE REPORTING PERIOD

There were no events subsequent during the period from 31 December 2019 and till the date of the approval of the financial statements that are expected to have a significant impact on these financial statements.

The emergence of COVID-19 (coronavirus) has created economic and financial disruptions in the global economy, which has led to operational challenges that could impair the Company's ability to manage or conduct some of its businesses. In line with many national and local guidelines, the Company has followed the local regulatory guidance encouraging remote-working arrangements and maintained its business operations continuity.

Given the disruptions in the markets, the Company is closely tracking their operational capacity. Additionally, the financial effects of the outbreak have a high degree of uncertainty, given that they are dependent on external factors such as the spread of the virus and the measures taken by the various governments. The Company continues to use their risk management framework to assess the potential impact on the operations, liquidity and capital and maintaining an active dialogue with all its relevant regulators during this period.

As a result, the Company's management considers this outbreak as a non-adjusting subsequent event in accordance with IAS 10. As at the financial statements issuance date, the management of the Company are in the process of assessing the potential impact of Covid-19 on its business operations and any financial impact will be shown in future reporting periods.

32. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform the current year presentation adopted in these financial statements, the effect of which are considered immaterial.

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issuance on March 24, 2020.