

AL HILAL GCC EQUITY FUND

**Report and financial statements
for the year ended 31 December 2019**

AL HILAL GCC EQUITY FUND

Report and financial statements for the year ended 31 December 2019

| | Pages |
|---|---------------|
| Independent auditor's report | 1 - 2 |
| Statement of financial position | 3 |
| Statement of comprehensive income | 4 |
| Statement of changes in net assets attributable to holders of redeemable units | 5 |
| Statement of cash flows | 6 |
| Notes to the financial statements | 7 - 24 |

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF AL HILAL GCC EQUITY FUND

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Al Hilal GCC Equity Fund (the "Fund"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable units and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 Fund as at and for year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on 31 March 2019.

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

The Investment Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as the Investment Manager 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, the Investment Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF AL HILAL GCC EQUITY FUND (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 ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Investment Manager.
- Conclude on the appropriateness of the Investment Manager'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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Fund Advisory Board 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 & Touche (M.E.)



Mohammad Khamees Al Tah
Registration No. 717
30 March 2020
Abu Dhabi
United Arab Emirates

**Statement of financial position
as at 31 December 2019**

| | Notes | 2019 AED'000 | 2018 AED'000 |
|---|-----------|-----------------|-----------------|
| Assets | | | |
| Bank balances | 6 | 5,115 | 5,810 |
| Financial assets at fair value through profit or loss ("FVTPL") | 7 | 20,048 | 26,941 |
| Due from broker | | 1,164 | - |
| Total assets | | 26,327 | 32,751 |
| Liabilities | | | |
| Due to related parties | 8 | 153 | 291 |
| Redemption payable | 9 | 4,479 | - |
| Other liabilities | 10 | 92 | 80 |
| Total liabilities (excluding net assets attributable to holders of redeemable units) | | 4,724 | 371 |
| Net assets attributable to holders of redeemable units | 12 | 21,603 | 32,380 |
| | | AED | AED |
| Net asset value ("NAV") per unit, based on 169,137 units outstanding (31 December 2018: 263,732 units) | | 127.72 | 122.78 |



Fund Advisory Board Member



Fund Advisory Board Member

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

**Statement of comprehensive income
for the year ended 31 December 2019**

| | Notes | 2019 AED'000 | 2018 AED'000 |
|---|-------|-----------------|-----------------|
| Income | | | |
| Net unrealised (losses) / gains from financial assets at FVTPL | 7 | (218) | (468) |
| Net realised gains from financial assets at FVTPL | 7 | 1,146 | 1,441 |
| Dividend income | | 1,262 | 1,287 |
| Net foreign exchange loss | | (9) | (30) |
| Total income | | 2,181 | 2,230 |
| Expenses | | | |
| Management fees | 8 | (647) | (715) |
| Other expenses | 11 | (415) | (633) |
| Total expenses | | (1,062) | (1,348) |
| Increase in net assets attributable to holders of redeemable units | | 1,119 | 882 |

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

**Statement of changes in net assets attributable to holders of redeemable units
for the year ended 31 December 2019**

| | 2019 AED'000 | 2018 AED'000 |
|--|-------------------------------|-----------------|
| Net assets attributable to holders of redeemable units at 1 January | 32,380 | 33,978 |
| Redemption of units during the year | (11,896) | (2,480) |
| Increase in net assets attributable to holders of redeemable units | 1,119 | 882 |
| Net assets attributable to holders of redeemable units at 31 December | 21,603 | 32,380 |

AL HILAL GCC EQUITY FUND
Statement of cash flows
for the year ended 31 December 2019

6

| | 2019 AED'000 | 2018 AED'000 |
|--|-----------------|-----------------|
| Cash flows from operating activities | | |
| Increase in net assets attributable to holders of redeemable units | 1,119 | 882 |
| Adjustments for: | | |
| Net unrealised losses from financial assets at FVTPL | 218 | 468 |
| Net realised gains from financial assets at FVTPL | (1,146) | (1,441) |
| | 191 | (91) |
| Changes in operating assets and liabilities | | |
| Due from broker and other assets | (1,164) | 41 |
| Due to related parties | (138) | 2 |
| Redemption payable | 4,479 | - |
| Other liabilities | 12 | 69 |
| Cash generated from operations | 3,380 | 21 |
| Purchase of financial assets at FVTPL | (7,462) | (21,790) |
| Proceeds from sale of financial assets at FVTPL | 15,283 | 20,723 |
| Net cash generated from / (used in) operating activities | 11,201 | (1,046) |
| Cash flows from financing activity | | |
| Payments on redemption of redeemable units | (11,896) | (2,480) |
| Net cash used in financing activity | (11,896) | (2,480) |
| Net decrease in cash and cash equivalents | (695) | (3,526) |
| Cash and cash equivalents at 1 January | 5,810 | 9,336 |
| Cash and cash equivalents at 31 December | 5,115 | 5,810 |

**Notes to the financial statements
for the year ended 31 December 2019****1 General information**

Al Hilal GCC Equity Fund (the “Fund”) is an open-ended investment fund established in the United Arab Emirates (“UAE”) by Al Hilal Bank – Investment Banking Group (the “Investment Manager”) pursuant to resolution no.164/8/94 of the Board of Directors of the Central Bank of the UAE and approval of the Securities and Commodities Authority (“SCA”) of the UAE dated 10 January 2011. The Fund is not a separately incorporated entity and its activities are managed by the Investment Manager and supervised by the Fund Advisory Board. The custody of the Fund was delegated to HSBC Bank Middle East Limited and the administration of the Fund is delegated to Apex Fund Services Ltd. (the “Fund Administrator”).

The Fund aims at achieving capital growth through investment, in compliance with Sharia rules and principles, in shares of companies traded in the markets of GCC countries. In an effort to meet its long-term objective, under normal operating conditions, the Fund will invest at least seventy-five (75%) of the Assets in Shariah-compliant GCC region equity securities. The twenty-five percent (25%) at any time be held in the form of cash and/or other short-term investments deemed appropriate by the Investment Manager in its sole discretion.

The registered office of the Fund is PO Box 63111, Abu Dhabi, United Arab Emirates. The date of commencement of the Fund was 6 April 2011.

The financial statements were approved and authorised for issue by the Fund Advisory Board of Al Hilal GCC Equity Fund on 30 March 2020.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standard Board.

These financial statements are prepared and presented in UAE Dirhams (AED) which is the Fund’s functional and presentation currency. All financial information presented in AED has been rounded to the nearest thousand (AED’000) except when otherwise indicated.

These financial statements are prepared under the historical cost convention except for financial assets at fair value through profit or loss which are carried at fair value.

3 Adoption of new and revised standards**3.1 New and revised IFRSs that are effective for the current year**

The following new and revised IFRSs that are mandatorily effective for accounting periods that begins on or after 1 January 2019 have also been adopted by the Fund. The application of these revised IFRSs has not had any material impact on the disclosures or on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

**Notes to the financial statements
for the year ended 31 December 2019 (continued)**

3 Adoption of new and revised standards (continued)

3.1 New and revised IFRSs that are effective for the current year (continued)

- IFRS 16, *Leases*
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation and Modification of financial liabilities*
- Amendments to IAS 28 *Investment in Associates and Joint Ventures: Relating to long-term interests in associates and joint ventures*
- Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Annual Improvements to IFRSs 2015-2017 Cycle: Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*

3.2 Standards and interpretations in issue but not yet effective and not early adopted

The Fund has not early adopted the following new and revised IFRSs that have been issued but are not yet effective.

| <u>New and revised IFRSs</u> | <u>Effective for annual periods beginning on or after</u> |
|---|--|
| Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 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 and IAS 8 relating to definition of “material” | 1 January 2020 |
| IFRS 17 <i>Insurance Contracts</i> | 1 January 2021 |
| Amendments to IFRS 10 <i>Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) 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 Investment Manager anticipates that these IFRSs and amendments will be adopted in the financial statements in the initial period when they become mandatorily effective. The Investment Manager assessed that adoption of these amendments will not have a significant impact on the Fund’s financial statements.

**Notes to the financial statements
for the year ended 31 December 2019 (continued)**

4 Summary of significant accounting policies

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Classification of financial assets and liabilities

All financial assets under scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Fund's business model for managing the financial assets and contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost, if both the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order 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 profit on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income, if both of the following conditions are met:

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

A financial asset is measured at fair value through profit or loss, unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Fund may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

The fund has classified its investments as financial assets at fair value through profit or loss.

All financial liabilities are classified as subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts; and
- commitments to provide a financing at a below-market profit rate.

At initial recognition, the Fund may irrevocably designate a financial asset or liability as measured at fair value through profit or loss when permitted, or when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Fund is provided internally on that basis to the entity's key management personnel.

**Notes to the financial statements
for the year ended 31 December 2019 (continued)**

4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Reclassification of financial assets and financial liabilities

Where the Fund changes its business model for managing financial assets, it reclassifies all affected financial assets. An entity shall not reclassify any financial liability.

Measurement of financial assets

At initial recognition, financial assets are measured at fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

After initial recognition, an entity shall measure a financial asset in accordance with its classification at:

- amortised cost less impairment;
- fair value through other comprehensive income less impairment; or
- fair value through profit or loss.

Impairment is assessed on the financial assets measured at amortised cost and at fair value through other comprehensive income for debt instruments as disclosed below.

Impairment of financial assets

In relation to the impairment of financial assets, the Fund applies the Expected Credit Loss (“ECL”) model. Under the expected credit loss model, the Fund accounts for expected credit losses and changes in those expected credit losses at the end of each reporting period to reflect changes in credit risk since initial recognition of the financial assets. It is not necessary for a credit event to have occurred before credit losses are recognised. The Fund has adopted the simplified approach for measuring the impairment on its financial assets. Under the simplified approach, the Fund measures the loss allowance at an amount equal to lifetime ECL for its financial instruments.

A loss allowance for expected credit losses is recognised on all classes of financial assets, other than those that are measured as fair value through profit or loss and equity instruments classified and measured at fair value through other comprehensive income. The financial assets subject to impairment requirements of IFRS 9, include bank balances and other assets.

Derecognition of financial assets

The Fund derecognises a financial asset only when:

- the contractual rights to the cash flows from the asset expire; or
- it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognise the financial asset.

**Notes to the financial statements
for the year ended 31 December 2019 (continued)****4 Summary of significant accounting policies (continued)****Financial instruments (continued)**Measurement of financial liabilities

Amounts due to related parties and other liabilities are classified as ‘financial liabilities’ and are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective profit method, with profit expense recognised on an effective yield basis, except for short term liabilities when the recognition of profit is immaterial.

Derecognition of financial liabilities

The Fund derecognises financial liabilities when, and only when, the Fund’s obligations are discharged, cancelled or they expire.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

Cash and cash equivalents for the purpose of statement of cash flows comprise balances with banks with original maturities of less than three months.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Net asset value per unit

The net asset value per unit is calculated by dividing the net assets included in the statement of financial position by the closing number of units outstanding at year end.

Other liabilities

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

Provisions

A provision is recognised if, as a result of a past event, the Fund 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. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**Notes to the financial statements
for the year ended 31 December 2019 (continued)****4 Summary of significant accounting policies (continued)****Net gain (loss) from financial assets at fair value through profit or loss**

Net gain (loss) from financial assets at fair value through profit or loss includes all realised gain (loss) and unrealised fair value changes and foreign exchange differences, but excludes dividend income.

Net realised gain (loss) from financial assets at fair value through profit or loss represents the difference between the closing price applicable on the last revaluation date and their sale/settlement price.

The unrealised gain (loss) represents the difference between the carrying amount of a financial instrument at the beginning of the reporting period, or transaction price when purchased in the current reporting period and its fair value at the end of the reporting period.

Dividend income

Dividend income is recognised in the statement of comprehensive income when the right to receive income is established net of applicable tax on dividends. For quoted equity securities, this is usually the ex-dividend date.

Foreign currencies

Transactions in foreign currencies are recorded at rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Foreign currency exchange differences arising on translation of foreign currencies are recognised in the statement of comprehensive income. Foreign currency exchange differences relating to investments at fair value through profit or loss are included in net gain on investments at fair value through profit or loss.

Redeemable units

Redeemable units are classified as liabilities. In accordance with the Fund's prospectus, the redemption amounts of the redeemable units are based on last published net asset value. The net asset value includes the Fund's underlying investments, calculated using the closing prices. On the other hand, in accordance with the Fund's accounting policies, financial assets are measured at a bid price and financial liabilities are measured at the asking price.

Distributions to holders of redeemable shares comprise dividends declared and paid by the Fund to the holders of redeemable shares during the year. Dividends are at the discretion of the Fund. A dividend to the Fund's unit holders is accounted for as a reduction in net assets attributable to holders of redeemable units. The distributions are presented as finance costs due to the redeemable shares being classified as financial liabilities in the statement of financial position.

**Notes to the financial statements
for the year ended 31 December 2019 (continued)****4 Summary of significant accounting policies (continued)****Expenses**

All expenses, including the management fees, administration fees, custodian fee, organisational costs and other operational expenses are recognised in the statement of comprehensive income on an accrual basis.

Subscription fees

Subscription fees are charged to unitholders by the Investment Manager at the time of issuance of units from the Fund.

Fair value measurement

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

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

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

When available, the Fund measures the fair value of an instrument using quoted bid prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received.

Assets are measured at a bid price and liabilities are measured at an asking price.

All changes in fair value, other than dividend income, are recognised in the statement of comprehensive income as net gain or loss from financial instruments at fair value through profit or loss.

5 Estimates and judgments

The preparation of financial statements in conformity with the IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provision as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates, judgments and underlying assumptions are continually evaluated and are based on historical experience and other factors.

The Fund does not have significant accounting estimates that have a significant risk of resulting in material adjustments in respect of assets and liabilities within the next financial year.

**Notes to the financial statements
for the year ended 31 December 2019 (continued)**

6 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise of the following:

| | 2019 AED'000 | 2018 AED'000 |
|---------------|-------------------------------|-----------------|
| Bank balances | 5,115 | 5,810 |

7 Financial assets at fair value through profit or loss

The Fund's financial assets at FVTPL comprise listed equity securities that are held for trading.

Movement in the balance of financial assets at FVTPL during the year is as follows:

| | 2019 AED'000 | 2018 AED'000 |
|--|-------------------------------|-----------------|
| Balance at the beginning of the year | 26,941 | 24,901 |
| Purchases during the year | 7,462 | 21,790 |
| Sales during the year | (15,283) | (20,723) |
| Net unrealised loss on financial assets at FVTPL | (218) | (468) |
| Net realised gain on financial assets at FVTPL | 1,146 | 1,441 |
| | <hr/> | <hr/> |
| Balance at the end of the year | 20,048 | 26,941 |

Investments by geography are as follows:

| | 2019 AED'000 | 2018 AED'000 |
|--------------|-------------------------------|-----------------|
| Saudi Arabia | 9,728 | 12,159 |
| UAE | 5,165 | 7,159 |
| Kuwait | 2,747 | 2,644 |
| Qatar | 1,908 | 4,356 |
| Oman | 500 | 623 |
| | <hr/> | <hr/> |
| | 20,048 | 26,941 |

**Notes to the financial statements
for the year ended 31 December 2019 (continued)**

8 Related parties

Related parties comprise members of the Fund Advisory Board, the Investment Manager and those entities over which the Fund, members of the Fund Advisory Board, and the Investment Manager can exercise control or significant influence or be controlled or significantly influenced by such entities including the funds that are managed by the Investment Manager. In the ordinary course of business, the Fund renders and receives services from such related parties at agreed rates, terms and conditions set out by the Investment Manager.

Terms and conditions

Key terms and conditions are shown below:

| | |
|---------|--|
| Banking | The Investment Manager provides banking services at rates agreed with the Fund. |
| Others | The Investment Manager is entitled to fund management fees of 2% of net assets value attributable to unitholders (2018: 2%) as set out in the Fund's term sheet. |

The outstanding balances as at year end are as follows:

| | 2019 AED'000 | 2018 AED'000 |
|--|-------------------------------|-----------------|
| Bank balances | 5,115 | 5,810 |
| Number of units held by related party (in thousands) | 135 | 200 |
| Total value of redeemable units held by related parties | 17,242 | 24,556 |
| <i>Due to related parties</i> | | |
| Investment management fees payable to the Investment Manager | 153 | 181 |
| Sharia review fees payable | - | 110 |
| | 153 | 291 |

Details of transactions with related parties in the statement of comprehensive income are as follows:

| | 2019 AED'000 | 2018 AED'000 |
|--|-------------------------------|-----------------|
| Management fees | 647 | 715 |
| (Reversal) / Provision for Sharia fees | (110) | 55 |

**Notes to the financial statements
for the year ended 31 December 2019 (continued)**

8 Related parties (continued)

Compensation of key management personnel

The Fund has no key management personnel. Activities of the Fund are managed by the Investment Manager and supervised by the Fund Advisory Board.

9 Redemption payable

This account amounting to AED 4,479 thousand pertains to unsettled redemptions as of 31 December 2019. These were settled subsequently on 2 January 2020.

10 Other liabilities

| | 2019 AED'000 | 2018 AED'000 |
|-------------------|-------------------------------|-----------------|
| Custodian fees | 50 | 20 |
| Professional fees | 29 | 50 |
| Other payables | 13 | 10 |
| | <hr/> | <hr/> |
| | 92 | 80 |
| | <hr/> | <hr/> |

11 Other expenses

| | 2019 AED'000 | 2018 AED'000 |
|--|-------------------------------|-----------------|
| Custodian fees | 243 | 199 |
| Administration, statutory reporting and other service fees | 124 | 124 |
| Index provider fees | 44 | 44 |
| Legal and professional fees | 38 | 72 |
| Commissions and other charges | 46 | 92 |
| Dividends withholding tax | 16 | 17 |
| (Reversal) / Provision for Shariah fees | (110) | 55 |
| Others | 14 | 30 |
| | <hr/> | <hr/> |
| | 415 | 633 |
| | <hr/> | <hr/> |

**Notes to the financial statements
for the year ended 31 December 2019 (continued)**

12 Net asset value

Net asset value is calculated by dividing the net assets for the year by the number of shares outstanding during the year.

| | 2019 | 2018 |
|--------------------------------|----------------|---------|
| Net assets (AED'000) | 21,603 | 32,380 |
| Number of units outstanding | 169,137 | 263,732 |
| Net asset value per unit (AED) | 127.72 | 122.78 |

The initial offering of units was at a price of AED 100 per unit (par value). Subsequent to the initial offering, the subscription and redemption price for units is based on the Net Assets Value (NAV) per unit on every Wednesday of each week.

13 Fair values of financial instruments

As at 31 December 2019 and 31 December 2018, carrying amounts of all the financial assets and liabilities approximated their fair values at the statement of financial position date.

The fair value hierarchy levels have been defined as follows:

- Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of Fund's financial assets are based on quoted prices in active markets. Hence these are classified at FVTPL within Level 1 of the fair value hierarchy.

During the period, there were no transfers between or into Level 1, Level 2 and Level 3 fair value measurements (31 December 2018: nil).

**Notes to the financial statements
for the year ended 31 December 2019 (continued)**

14 Financial Risk Management and Objectives

Risk management framework

The Fund's principal financial liabilities consist of amounts due to related parties and other payables. The Fund has financial assets such as financial assets at fair value through profit or loss and bank balances. The Fund's financial assets and liabilities arise directly from its operations.

The Fund Advisory Board has the overall responsibility for the establishment and oversight of the Fund's risk management framework. The Fund is managed by the Investment Manager on the basis of the Fund's investment objectives and guidelines, subject to the supervision of the Fund Advisory Board, on a day to day basis. The Fund Advisory Board reviews the activities and performance of the Fund (including Fund's investment strategies as set out in the investment guidelines) and makes appropriate recommendations to the Investment Manager.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, on an ongoing basis, to reflect changes in market conditions, products and services offered.

The main risks arising from the Fund's financial instruments are as follows:

1. Liquidity risk;
2. Credit risk;
3. Operational risk; and
4. Market risk.

The Investment Manager reviews and agrees policies for managing each of these risks which are summarised below:

Liquidity risk

Liquidity risk is the risk that the Fund will be unable to meet its funding requirements. It arises principally due to related parties and unit holders redeeming their units.

The Fund's liquidity risk is managed on a daily basis by the Investment Manager in accordance with the policies and procedures in place by having sufficient liquidity to meet its liabilities including anticipated redemptions of units, as and when due, without incurring unacceptable losses or risking damages to the Fund's reputation. Under normal operating conditions, up to twenty-five percent (25%) of the Assets may at any time be held in the form of cash and / or other short-term investments deemed appropriate by the Investment Manager in its sole discretion. Cash will be invested in a Shariah-compliant manner. Under non-normal operating conditions, including events such as providing liquidity for client transactions or during periods of excessive market volatility, cash and / or other short-term investments may comprise greater than twenty-five percent (25%) but no more than seventy percent (70%) of the assets.

The table below summarises the liquidity profile of the Fund's liabilities based on contractual maturities determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date.

**Notes to the financial statements
for the year ended 31 December 2019 (continued)**

14 Financial Risk Management and Objectives (continued)

The maturity profile of assets and liabilities at 31 December 2019 and 31 December 2018 are as follows:

| | Within 3 months AED'000 | 3 months to 1 year AED'000 | 1 to 5 years AED'000 | Unspecified maturity AED'000 | Total AED'000 |
|---------------------------|--|---|-------------------------------------|---|--------------------------|
| 31 December 2019 | | | | | |
| Assets | | | | | |
| Bank balances | 5,115 | - | - | - | 5,115 |
| Financial assets at FVTPL | - | - | - | 20,048 | 20,048 |
| Due from broker | 1,164 | - | - | - | 1,164 |
| | 6,279 | - | - | 20,048 | 26,327 |
| Liabilities | | | | | |
| Due to related parties | 153 | - | - | - | 153 |
| Redemption payable | 4,479 | - | - | - | 4,479 |
| Other liabilities | 92 | - | - | - | 92 |
| | 4,724 | - | - | - | 4,724 |
| 31 December 2018 | | | | | |
| Assets | | | | | |
| Bank balances | 5,810 | - | - | - | 5,810 |
| Financial assets at FVTPL | - | - | - | 26,941 | 26,941 |
| | 5,810 | - | - | 26,941 | 32,751 |
| Liabilities | | | | | |
| Due to related parties | 291 | - | - | - | 291 |
| Other liabilities | 80 | - | - | - | 80 |
| | 371 | - | - | - | 371 |

**Notes to the financial statements
for the year ended 31 December 2019 (continued)**

14 Financial Risk Management and Objectives (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. It arises from bank balances and financial assets at fair value through profit or loss. The Investment Manager attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The maximum credit risk is limited to amounts appearing on the statement of financial position.

Where the credit risk is not in accordance with the investment policy or guidelines of the Fund, the Investment Manager is obliged to rebalance the portfolio as soon as is reasonably practicable after each determination that the portfolio is not in compliance with the stated investment parameters. As of now the Fund's concentration matrix reflecting diversification is as follows:

Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the majority of transactions, the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Fund cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Fund is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

The Fund's objective is to manage operational risk to balance limiting of financial losses and damage to its reputation whilst achieving its investment objective of generating returns to investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the Investment Manager. This responsibility is supported by the development of overall standards 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:

- Requirements for appropriate segregation of duties between various functions, roles and responsibilities
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Contingency plans
- Ethical and business standards
- Risk mitigation, including insurance where this is effective.

**Notes to the financial statements
for the year ended 31 December 2019 (continued)****14 Financial Risk Management and Objectives (continued)****Operational risk (continued)**

Compliance with policies and procedures is supported by periodic reviews undertaken by the Investment Manager's Audit and Compliance Division. The results of these reviews are discussed with the management, with summaries submitted to the Audit Committee and senior management of the Investment Manager.

The Investment Manager's assessment over the adequacy of the controls and processes in place at the service providers with respect to operational risks is carried out via regular discussions with the service providers.

Substantially all of the securities of the Fund are held with reputable brokers. Bankruptcy or insolvency of the custodians may cause the Fund's rights with respect to the securities held by the custodian to be delayed or limited. The Investment Manager monitors the credit ratings, internal control and financial position of its custodians on a periodic basis.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The Fund is exposed to market risk with respect to its investments. The Fund limits market risk by maintaining a diversified portfolio of equities based on Islamic Sharia Rules and Principles, listed in Dubai, Abu Dhabi and other Arab equities markets. The Fund's market risk is managed on a daily basis by the Investment Manager in accordance with the policies and procedures in place. The Fund's overall market positions are monitored by the Fund Advisory Board on periodic basis. In addition, the Fund actively monitors the key factors that affect stock and Sukuk market movement, including analysis of the operational and financial performance of investees.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The exchange rate of AED and most of GCC currencies, in which the Fund invests, is pegged against US Dollar and hence the Fund's exposure to currency risk is limited to that extent.

Since the majority of the assets and liabilities are in AED or in foreign currencies pegged with the AED, the management estimates that any reasonable possible changes in exchange rates would not have a significant impact on the Fund's financial statements.

At 31 December 2019 and 2018, the effect of the assumed changes in exchange rates on equity is insignificant.

**Notes to the financial statements
for the year ended 31 December 2019 (continued)**

14 Financial Risk Management and Objectives (continued)

Other price risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. As the majority of the Fund's financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect net investment income.

Price risk is managed by the Investment Manager by constructing a diversified portfolio of instruments, in different industry sectors and traded on different markets. Under normal circumstances the Fund invests in the trading instruments in accordance with the investment guidelines.

As per the prospectus of the Fund, the policy for concentration of its investment portfolio profile is as follows:

- The Fund will hold no more than 65 equity securities at any point in time.
- The Investment Manager may invest up to 10% of assets in listed equity securities in the index, without regard to traditional weighting techniques such as market capitalisation weighting or index benchmarking.
- No more than 30% of the assets may at any time be held in equity securities in any one Industry Classification Benchmark ("ICB") super sector in the index as defined by Dow Jones.
- No more than 55% of the assets may be held in equities from Kingdom of Saudi Arabia. No more than 45% of the assets may be held in equities from any other country represented in the index.

Where the market risk is not in accordance with the investment policy or guidelines of the Fund, the Investment Manager is obliged to rebalance the portfolio as soon as is reasonably practicable after each determination that the portfolio is not in compliance with the stated investment parameters.

The distribution of the Fund's financial assets by geographic region is as follows:

| | 2019 | 2018 |
|--------------|---------------------------|--------------------|
| | % | % |
| Saudi Arabia | 48.53 | 37.12 |
| UAE | 25.76 | 39.60 |
| Kuwait | 13.70 | 8.08 |
| Qatar | 9.52 | 1.90 |
| Oman | 2.49 | 13.30 |
| | <hr/> 100.00 <hr/> | <hr/> 100.00 <hr/> |

**Notes to the financial statements
for the year ended 31 December 2019 (continued)**

14 Financial Risk Management and Objectives (continued)

Other price risk (continued)

The distribution of the Fund's financial assets by sector / industry is as follows:

| | 2019 | 2018 |
|------------------------|---------------|----------|
| | % | % |
| Financial | 23.58 | 12.10 |
| Telecommunication | 18.19 | 12.40 |
| Chemicals | 14.52 | 10.40 |
| Consumer staples | 7.27 | 14.80 |
| Industrial | 7.08 | 13.28 |
| Consumer discretionary | 2.65 | 1.00 |
| Others | 26.71 | 36.02 |
| | 100.00 | 100.00 |

The Fund's individual significant exposure in its portfolio of investments at fair value through profit or loss is as follows:

| | 2019 | | 2018 |
|-----------------------------|--------------|------------------------------|----------|
| | % | | % |
| Emirates Telecom Group Co | 10.71 | Emirates Telecom Group Co | 8.74 |
| Saudi Basic Industries Corp | 7.95 | Qatar Electricity & Water Co | 8.66 |
| Al Rajhi Bank | 7.51 | Saudi Basic Industries Corp | 7.24 |
| Kuwait Finance House | 5.93 | Industries Qatar | 6.38 |
| Abu Dhabi National Oil Co. | 5.91 | Aramex PJSC | 6.38 |
| Industries Qatar | 5.38 | Almarai Co Ltd | 5.79 |
| Emaar Malls Pjsc | 5.24 | Al Rajhi Bank | 5.42 |

The table below sets out the sensitivity analysis and its effect on the Fund's statement of comprehensive income and net assets of a reasonably possible strengthening in the individual equity market prices of 1% at 31 December. The analysis assumes that all other variables, in particular profit and foreign currency rates remain constant.

| | 2019 | 2018 |
|----------------------------------|--------------|-------|
| Effect in AED'000 | | |
| Financial assets at FVTPL | 200 | 269 |
| Effect in % of net assets | | |
| Financial assets at FVTPL | 0.93% | 0.83% |

**Notes to the financial statements
for the year ended 31 December 2019 (continued)****14 Financial Risk Management and Objectives (continued)****Other price risk (continued)**

As a result of adverse market movement of 5%, the net asset value of the Fund is expected to decline by AED 1,080 thousand (2018: AED 1,619 thousand).

A weakening of market prices would have resulted in an equal but opposite effect to the amounts shown above.

Capital management

The Fund's capital is represented by the number of units outstanding. The primary objective of the Fund's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize unitholders value.

The Fund aims to deliver this objective mainly through investing in a balanced portfolio as per the Fund's investment guidelines while maintaining sufficient liquidity to meet unit holders' redemptions. The Fund has complied with the externally imposed requirements.

15 Reclassifications on comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year. The Investment Manager believes that the current year presentation provides more information that is meaningful to the users of the financial statements. These reclassifications did not have any impact on net assets attributable to holders of redeemable units of the prior year.

16 Subsequent event

The rapid spread of the coronavirus disease 2019 ("COVID-19") across the globe is causing disruptions to businesses and economic activity. The ultimate impact of COVID-19 remains unknown at date of issuance of these financial statements, but at the beginning of the year it had significant negative effects on the capital markets and its volatility in which the Fund had invested. The Fund considers this outbreak to be a non-adjusting post reporting date event. As the situation is rapidly evolving and the impact on the Fund's performance, investing activities and portfolio company operations is extraordinarily uncertain, the Investment Manager does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak to the Fund's net assets attributable to holders of redeemable units.