

Al Hilal GCC Equity Fund

FINANCIAL STATEMENTS

31 DECEMBER 2020

Al Hilal GCC Equity Fund

Financial statements

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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 2020, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders 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 2020 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 Code of Ethics for Professional Accountants (including International Independence Standards)* (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 Fund's financial statements for the year ended 31 December 2019 were audited by another auditor who expressed an unqualified opinion on those financial statements on 30 March 2020.

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 IFRSs, 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, the Fund 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.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF AL HILAL GCC EQUITY FUND continued

Report on the Audit of the Financial Statements continued

Auditors' responsibilities for the audit of the financial statements continued

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 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 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 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.



Signed by
Raed Ahmad
Partner
Ernst & Young
Registration No 811

28 March 2021
Abu Dhabi

Al Hilal GCC Equity Fund

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Note</i>	2020 AED'000	2019 AED'000
INCOME			
Net unrealised gains/(losses) from financial assets at FVTPL	3	1,058	(218)
Net realised (losses)/gains from financial assets at FVTPL	3	(133)	1,146
Dividend income		562	1,262
Other income		56	-
Net foreign exchange loss		<u>(12)</u>	<u>(9)</u>
		<u>1,531</u>	<u>2,181</u>
EXPENSES			
Management fees	9	(336)	(647)
Other expenses	4	<u>(562)</u>	<u>(415)</u>
		<u>(898)</u>	<u>(1,062)</u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS		<u>633</u>	<u>1,119</u>

The attached notes 1 to 12 form part of these financial statements.

Al Hilal GCC Equity Fund

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	2020 AED'000	2019 AED'000
ASSETS			
Bank balances	5	907	5,115
Financial assets at fair value through profit or loss	6	17,001	20,048
Due from broker		-	1,164
		<u>17,908</u>	<u>26,327</u>
LIABILITIES			
Amounts due to a related party	9	242	153
Redemption payable		-	4,479
Other liabilities	7	<u>152</u>	<u>92</u>
		<u>394</u>	<u>4,724</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>17,514</u>	<u>21,603</u>
		2020 AED	2019 AED
Net Asset Value (NAV) per unit, based on 132,270 units outstanding (2019: 169,137)	8	<u>132.41</u>	<u>127.72</u>

These financial statements were approved and authorised for issue by the Fund Advisory Board of Al Hilal GCC Equity Fund on 28/3/21 and signed on its behalf by:


Fund Advisory Board Member


Fund Advisory Board member

The attached notes 1 to 12 form part of these financial statements.

Al Hilal GCC Equity Fund

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31 December 2020

	<i>Number of units</i>	<i>Net assets attributable to unit holders AED '000</i>
At 1 January 2020	169,137	21,603
Redemption of units during the year	(36,867)	(4,722)
Profit for the year	<u>-</u>	<u>633</u>
At 31 December 2020 (note 8)	<u>132,270</u>	<u>17,514</u>
At 1 January 2019	263,732	32,380
Redemption of units during the year	(94,595)	(11,896)
Profit for the year	<u>-</u>	<u>1,119</u>
At 31 December 2019 (note 8)	<u>169,137</u>	<u>21,603</u>

The attached notes 1 to 12 form part of these financial statements.

Al Hilal GCC Equity Fund

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	<i>Note</i>	2020 AED'000	2019 AED'000
OPERATING ACTIVITIES			
Increase in net assets from operations		633	1,119
Adjustments for:			
Net unrealised (gains)/losses from financial assets at FVTPL	3	(1,058)	218
Net realised losses/(gains) from financial assets at FVTPL	3	<u>133</u>	<u>(1,146)</u>
		(292)	191
Working capital changes:			
Change in due from broker		1,164	(1,164)
Change in amount due to a related party		89	(138)
Change in redemption payable		(4,479)	4,479
Change in other liabilities		<u>60</u>	<u>12</u>
Cash (used in) from operations		(3,458)	3,380
Purchase of financial assets at fair value through profit or loss		(984)	(7,462)
Proceeds from sale of financial assets at fair value through profit or loss		<u>4,956</u>	<u>15,283</u>
Net cash flows generated from operating activities		<u>514</u>	<u>11,201</u>
FINANCING ACTIVITY			
Payment on redemption of redeemable units		(4,722)	(11,896)
Net cash used in financing activity		<u>(4,722)</u>	<u>(11,896)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(4,208)	(695)
Cash and cash equivalents at 1 January		<u>5,115</u>	<u>5,810</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	<u>907</u>	<u>5,115</u>

The attached notes 1 to 12 form part of these financial statements.

Al Hilal GCC Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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 Fund 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 remaining twenty-five percent (25%) at any time are to 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.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been presented in United Arab Emirates Dirhams (AED) which is the functional currency of the Fund. All values are rounded to the nearest thousand (AED '000) except as otherwise indicated.

The 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.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS effective as of 1 January 2020:

- Amendments to IFRS 3 – Definition of Business
- Amendments to IFRS 7 and IFRS 9 – Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8 – Definition of Material
- Conceptual Framework for Financial Reporting
- Amendments to IFRS 16 - Covid-19 Related Rent Concessions (effective as of 1 June 2020)

The adoption of the above new standards and interpretations has no significant impact on the Funds' financial position, performance or disclosures.

Al Hilal GCC Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES continued

STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these standards, if applicable, when they become effective:

<i>New and revised IFRS</i>	<i>Effective for annual periods beginning on or after</i>
Amendments to IAS 41 - Taxation in fair value measurements	1 January 2022
Amendments to IFRS 9 - Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
Amendments to IFRS 1 - Subsidiary as a first-time adopter	1 January 2022
Amendments to IAS 37 - Onerous Contracts: Costs of Fulfilling a Contract	1 January 2022
Amendments to IAS 16 - Proceeds before Intended Use	1 January 2022
Amendments to IFRS 3 - Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 1 - Classification of Liabilities as Current or Non-current	1 January 2023
IFRS 17 - Insurance Contracts	1 January 2023

The Fund does not expect these new standards and amendments to have any significant impact on the financial statements, when implemented in future periods.

2.3 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 the 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.

Al Hilal GCC Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued

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 result 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.

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

Initial 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.

Al Hilal GCC Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued

Subsequent measurement of financial assets

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 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 at 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.

Measurement of financial liabilities

Amounts due to a related party and other payables 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Redeemable units

Redeemable units are classified as financial liabilities and are measured at the present value of the redemption amounts. 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.

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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are measured at fair value on the reporting date. For quoted securities, market prices are readily available.

Fair value estimates are made at specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of significant judgment and therefore, cannot be determined with precision.

Key sources of estimation uncertainty – COVID-19

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration and its impact on the business and overall economic impact. As a result, businesses have subsequently seen reduced customer traffic and, where governments mandated, temporary suspension of travel and closure of recreation and public facilities.

To alleviate the negative impact of the COVID-19 pandemic, the UAE Government, Central Bank and other independent jurisdictions and regulators have taken measures and issued directives to support businesses and the UAE economy at large, including extensions of deadlines, facilitating continued business through social-distancing and easing pressure on credit and liquidity in the UAE.

The situation, including the government and public response to the challenges, continue to progress and rapidly evolve. Therefore, the extent and duration of the impact of these conditions remain uncertain and depend on future developments that cannot be accurately predicted at this stage, and a reliable estimate of such an impact cannot be made at the date of approval of these financial statements. Notwithstanding, these developments could impact our future financial results, cash flows and financial position.

3 NET GAINS (LOSSES) FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 AED'000	2019 AED'000
Unrealised gains/(losses) from financial assets at fair value through profit or loss (note 6)	1,058	(218)
Realised (losses)/gains from financial assets at fair value through profit or loss (note 6)	<u>(133)</u>	<u>1,146</u>
	<u>925</u>	<u>928</u>

Al Hilal GCC Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4 OTHER EXPENSES

	2020 AED'000	2019 AED'000
Custodian fees	301	243
Administration, statutory reporting and other service fees	124	124
Index provider fees	44	44
Legal and professional fees	55	38
Commissions and other charges	13	46
Dividends withholding tax	7	16
Reversal of provision for shariah fees	-	(110)
Others	<u>18</u>	<u>14</u>
	<u>562</u>	<u>415</u>

5 CASH AND CASH EQUIVALENTS

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

	2020 AED'000	2019 AED'000
Bank balances	<u>907</u>	<u>5,115</u>

6 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:

	2020 AED'000	2019 AED'000
Balance at the beginning of the year	20,048	26,941
Purchases during the year	984	7,462
Sales during the year	(4,956)	(15,283)
Net unrealised gain/(loss) on financial assets at FVTPL (note 3)	1,058	(218)
Net realised (loss)/gain on financial assets at FVTPL (note 3)	<u>(133)</u>	<u>1,146</u>
Balance at the end of the year	<u>17,001</u>	<u>20,048</u>

Investments by geography are as follows:

	2020 AED'000	2019 AED'000
Saudi Arabia	9,371	9,728
UAE	3,088	5,165
Qatar	2,348	1,908
Kuwait	1,895	2,747
Oman	<u>299</u>	<u>500</u>
	<u>17,001</u>	<u>20,048</u>

Al Hilal GCC Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

7 OTHER LIABILITIES

	2020 AED'000	2019 AED'000
Custodian fees	100	50
Professional fees	39	29
Other payables	<u>13</u>	<u>13</u>
	<u>152</u>	<u>92</u>

8 NET ASSET VALUE

Net Asset Value per share is calculated by dividing the net assets included in the statement of financial position by the number of units outstanding at the year-end as follows:

	2020	2019
Net asset attributable to unit holders (AED '000)	<u>17,514</u>	<u>21,603</u>
Number of units outstanding	<u>132,270</u>	<u>169,137</u>
Net asset value per unit (AED)	<u>132.41</u>	<u>127.72</u>

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.

9 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties comprise members of the Fund Advisory Board, the Sharia Supervisory Board, the Fund Manager and those entities over which the Fund, members of the Fund Advisory Board, the Sharia Supervisory Board and the Fund Manager can exercise control or significant influence or be controlled or significantly influenced by such entities including the funds that are managed by the Fund 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 Fund Manager.

Terms and conditions

Key terms and conditions are shown below:

Banking:

The Fund Manager provides banking services at rates agreed with the Fund.

Others:

The Fund Manager is entitled to fund management fees of 2% of net assets value attributable to unit holders (2019: 2%) as set out in the Funds' term sheet.

Al Hilal GCC Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

9 RELATED PARTY BALANCES AND TRANSACTIONS continued

Transactions with related parties included in the statement of comprehensive income are as follows:

	2020 AED'000	2019 AED'000
Management fees	<u>336</u>	<u>647</u>
Reversal of provision for sharia fees	<u>-</u>	<u>(110)</u>

Balances with related parties at the reporting dates are shown below:

	2020 AED'000	2019 AED'000
Number of units held by related parties	<u>100</u>	<u>135</u>
Total value of redeemable units held by related parties	<u>13,241</u>	<u>17,242</u>
Bank balances	<u>907</u>	<u>5,115</u>
<i>Due to related parties</i>		
Investment management fees payable to the Fund Manager	<u>242</u>	<u>153</u>

Compensation of key management personnel

The Fund is managed by the Fund Manager and there are no key management personnel of the Fund.

10 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values

Carrying amounts of all the financial assets and liabilities approximated their fair values at the statement of financial position date.

Fair value hierarchy

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1:* quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2:* other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3:* techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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10 FAIR VALUES OF FINANCIAL INSTRUMENTS continued

Fair value hierarchy continued

As at 31 December 2020 and 2019, the Fund held the following financial instruments measured at fair value:

	<i>31 December 2020 AED'000</i>	<i>Level 1 AED'000</i>	<i>Level 2 AED'000</i>	<i>Level 3 AED'000</i>
Financial assets				
Financial assets at fair value through profit or loss	<u>17,001</u>	<u>17,001</u>	<u>-</u>	<u>-</u>
	<i>31 December 2019 AED'000</i>	<i>Level 1 AED'000</i>	<i>Level 2 AED'000</i>	<i>Level 3 AED'000</i>
Financial assets				
Financial assets at fair value through profit or loss	<u>20,048</u>	<u>20,048</u>	<u>-</u>	<u>-</u>

During the year ended 31 December 2020 and 2019, there were no transfers between or into Level 1, Level 2 and Level 3 fair value measurements.

11 FINANCIAL RISK MANAGEMENT AND OBJECTIVES

Risk management framework

The Fund's principal financial liabilities consist of amounts due to a related party, other payables and net assets attributable to unitholders. 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:

Al Hilal GCC Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

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11 FINANCIAL RISK MANAGEMENT AND OBJECTIVES continued

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.

The maturity profile of assets and liabilities at 31 December 2020 is as follows:

	<i>Up to three months AED'000</i>	<i>From three months to one year AED'000</i>	<i>From one year to five years AED'000</i>	<i>Unspecified maturity AED'000</i>	<i>Total AED'000</i>
Assets					
Bank balances	907	-	-	-	907
Financial assets at fair value through profit or loss	-	-	-	17,001	17,001
Total	<u>907</u>	<u>-</u>	<u>-</u>	<u>17,001</u>	<u>17,908</u>
Liabilities and Net Assets					
Amounts due to a related party	242	-	-	-	242
Other liabilities	152	-	-	-	152
Total	<u>394</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>394</u>

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

	<i>Up to three months AED'000</i>	<i>From three months to one year AED'000</i>	<i>From one year to five years AED'000</i>	<i>Unspecified maturity AED'000</i>	<i>Total AED'000</i>
Assets					
Bank balances	5,115	-	-	-	5,115
Amount due from broker	1,164	-	-	-	1,164
Financial assets at fair value through profit or loss	-	-	-	20,048	20,048
Total	<u>6,279</u>	<u>-</u>	<u>-</u>	<u>20,048</u>	<u>26,327</u>
Liabilities and Net Assets					
Amounts due to a related party	153	-	-	-	153
Redemption payable	4,479	-	-	-	4,479
Other payable	92	-	-	-	92
Total	<u>4,724</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,724</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

11 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.

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.

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 custodians. 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.

Al Hilal GCC Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

11 FINANCIAL RISK MANAGEMENT AND OBJECTIVES continued

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 bond market movement, including analysis of the operational and financial performance of investees. Market risk arise as a result of following exposures:

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 2020 and 2019, the effect of the assumed changes in exchange rates on equity is insignificant.

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 Fund 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.

Al Hilal GCC Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

11 FINANCIAL RISK MANAGEMENT AND OBJECTIVES continued

Market risk continued

Other price risk continued

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:

	2020 %	2019 %
<i>Geographic region</i>		
Saudi Arabia	55.12	48.53
U.A.E	18.16	25.76
Qatar	13.81	9.52
Kuwait	11.15	13.70
Oman	1.76	2.49
	<u>100.00</u>	<u>100.00</u>

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

<i>Sector/Industry</i>		
Financial	22.13	25.58
Chemical	18.28	14.52
Telecommunication	15.71	18.19
Industrial	9.32	7.08
Consumer staples	8.03	7.27
Consumer Discretionary	1.80	2.65
Others	24.73	24.71
	<u>100.00</u>	<u>100.00</u>

The Fund had the following individual significant exposure in its portfolio of investments at fair value through profit or loss:

	2020 %	2019 %
Emirates Telecom Group Co	8.95	10.71
Saudi Basic Industries Corp	8.72	7.95
Al Rajhi Bank	8.40	7.51
Industries Qatar	7.30	5.38
Yanbu National Petrochemical	5.11	-
Kuwait Finance house	4.81	5.93
Abu Dhabi National Oil Co	3.75	5.91
Emaar Mall PJSC	2.69	5.24

The Fund estimates the future reasonably possible market price fluctuations for equity investments on an individual investment basis.

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11 FINANCIAL RISK MANAGEMENT AND OBJECTIVES continued

Market risk continued

Other price risk continued

The table below sets out the sensitivity analysis and its effect on the Fund's statement of comprehensive income and net assets attributable to unit holders 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.

	2020	2019
<i>Effect in AED thousand</i>		
Financial assets at fair value through profit or loss	<u>170</u>	<u>200</u>
<i>Effect in % of net assets</i>		
Financial assets at fair value through profit or loss	<u>0.97%</u>	<u>0.93%</u>

As a result of adverse market movement of 5%, the net asset value of the Fund is expected to decline by AED 850 thousand (2019: AED 1,002 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.

12 CONTINGENT LIABILITIES

The Fund has no significant contingent liabilities at the reporting date.