Al Hilal GCC Equity Fund

FINANCIAL STATEMENTS

31 DECEMBER 2018

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 2018, and the statement of comprehensive income, statement of changes in equity 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 2018 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.

Responsibilities of management and those charged with governance for the financial statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as the Fund 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 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.

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

Auditor's responsibilities for the audit of the financial statements

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

Auditor's 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 the Fund Manager.

- Conclude on the appropriateness of the Fund 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.

Signed by
Mohammad Mobin Khan
Partner
Ernst & Young
Registration No 532

31 March 2019
Abu Dhabi

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	***2018*** ***AED'000***	*2017* *AED'000*
INCOME			
Net gains (losses) from financial assets at fair value through profit or loss	3	**881**	(919)
Dividend income		**1,270**	1,258
Net foreign exchange loss		**(30)**	(30)
		2,121	309
EXPENSES			
Management fees	9	**(715)**	(730)
Other expenses	4	**(524)**	(425)
		(1,239)	(1,155)
PROFIT (LOSS) FOR THE YEAR		**882**	(846)

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

STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Notes	*2018 AED'000*	*2017 AED'000*
ASSETS			
Bank balances	5	**5,810**	9,336
Financial assets at fair value through profit or loss	6	**26,941**	24,901
Other assets		**-**	41
		32,751	34,278
LIABILITIES			
Amounts due to related parties	9	**181**	179
Other liabilities	7	**190**	121
		371	300
NET ASSETS		**32,380**	33,978
TOTAL LIABILITIES AND EQUITY		**32,751**	34,278
Net Asset Value (NAV) per unit, based on outstanding units of 263,732 (2017: 283,435)	8	**122.78**	119.88

These financial statements were approved and authorised for issue by the Fund Advisory Board of Al Hilal GCC Equity Fund on 31-May-19 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.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Number of units	*Net assets AED'000*
At 1 January 2018	283,435	33,978
Redemption of units during the year	(19,703)	(2,480)
Profit for the year	-	882
At 31 December 2018 (note 8)	**263,732**	**32,380**
At 1 January 2017	319,134	39,212
Redemption of units during the year	(35,699)	(4,388)
Loss for the year	-	(846)
At 31 December 2017 (note 8)	283,435	33,978

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 AED'000	2017 AED'000
OPERATING ACTIVITIES			
Profit (loss) for the year		**882**	(846)
Adjustments for:			
Net (gains) losses from financial assets at fair value through profit or loss	3	**(881)**	919
		1	73
Working capital changes:			
Other assets		**41**	(41)
Amounts due to related parties		**2**	(15)
Other liabilities		**69**	10
Cash from operations		**113**	27
Purchase of financial assets at fair value through profit or loss		**(21,882)**	(6,738)
Proceeds from sale of financial assets at fair value through profit or loss		**20,723**	14,703
Net cash flows (used in) from operating activities		**(1,046)**	7,992
FINANCING ACTIVITY			
Redemption of units		**(2,480)**	(4,388)
Cash flows used in financing activity		**(2,480)**	(4,388)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(3,526)**	3,604
Cash and cash equivalents at 1 January		**9,336**	5,732
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	**5,810**	9,336

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

1 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 Fund Manager.

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

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. The Fund's investment program is managed by the Fund Manager. The custodian services are assigned to HSBC Bank Middle East Limited ("the custodian") and the administration services are to Apex Fund Services Ltd ("the Fund Administrator").

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 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations;
- Amendments to IAS 40 Transfers of Investment Property;
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions;
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice; and
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters.

Annual Improvements 2014-2016 Cycle

- IFRS 1 First-time adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first time adopters;
- IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice.

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

2.2 CHANGES IN ACCOUNTING POLICIES continued

IFRS 9 Financial Instruments
In these financial statements, the Fund has applied for the first time, IFRS 9 Financial Instruments which replaces IAS 39 for annual periods on or after 1 January 2018.

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Changes to classification and measurement
To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion.

- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are typically quoted debt instruments that met the SPPI criterion and are held within a business model both to collect cash flows and to sell.

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Fund intends to hold for the foreseeable future and which the Fund has irrevocably elected to so classify upon initial recognition or transition.

Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Fund has not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

Majority of the financial assets held by the Fund are currently measured at fair value through profit or loss and these financial assets meet the conditions for classification as Financial assets at FVPL under IFRS 9. Accordingly, the Fund has concluded that the new guidance to not have a significant impact on the classification and measurement of its financial assets.

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

There is no impact on the Fund's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Fund does not have any such liabilities.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Fund's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Fund does not currently have any hedging relationships. Accordingly, there is no impact on the accounting for its hedging relationships.

2.2 CHANGES IN ACCOUNTING POLICIES continued

IFRS 9 Financial Instruments continued
Changes to the impairment calculation
The adoption of IFRS 9 has changed accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires an entity to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Majority of the financial assets held by the Fund are currently measured at fair value through profit or loss, accordingly there is no impact of new approach on these assets. As per the management's assessment for provisions on balances with banks, the impact is not significant.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Fund has assessed the impact of IFRS 15 and concluded that there is no significant impact of IFRS 15 on its financial statements.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 equity. 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. The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions. Dividends are at the discretion of the Fund. A dividend to the Fund's unit holders is accounted for as an equity transaction.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
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 interest 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 interest 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 loan at a below-market interest rate.

At initial recognition, the Fund may irrevocably designate a financial 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.

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

2.4 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 as opposed to an incurred credit loss 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.

Measurement of financial liabilities

Amounts due to related parties 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 interest method, with interest expense recognised on an effective yield basis, except for short term liabilities when the recognition of interest 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

Accounts payable and accruals
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.

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.

2.5 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:

- IFRS 17 Insurance Contracts
- IFRS 16 Leases
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term interests in associates and joint ventures

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- IFRS 3 Business Combinations - Previously held Interests in a joint operation
- IFRS 11 Joint Arrangements
- IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
- IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation

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

The Fund is in the process of assessing the impact of the new standards and amendments on its financial statements.

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

	2018 AED'000	*2017 AED'000*
Unrealised gains (losses) from financial assets at fair value through profit or loss	**349**	(527)
Realised gains (losses) from financial assets at fair value through profit or loss	**532**	(392)
	881	(919)

4 OTHER EXPENSES

	2018 AED'000	*2017 AED'000*
Legal and professional fees	**72**	45
Index provider fees	**44**	44
Administration, statutory reporting and other service fees	**124**	118
Custody fees	**199**	94
Others	**85**	124
	524	425

5 CASH AND CASH EQUIVALENTS

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

	2018 *AED'000*	*2017* *AED'000*
Bank balances	**5,810**	9,336

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 *AED'000*	*2017* *AED'000*
Investment in listed equities	**26,941**	24,901

At the reporting date, the fair value of these investments was arrived at using market value of the investments.

7 OTHER LIABILITIES

	2018 *AED'000*	*2017* *AED'000*
Professional fees	**50**	43
Other payables	**140**	78
	190	121

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:

	2018	*2017*
Net assets (*AED'000*)	**32,380**	33,978
Number of units outstanding	**263,732**	283,435
Net asset value per unit (*AED*)	**122.78**	119.88

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 (2017: 2%) as set out in the Funds' term sheet.

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

	2018 ***AED'000***	*2017* *AED'000*
Management fees	**715**	730

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

	2018 ***AED'000***	*2017* *AED'000*
Number of units held by related parties (in thousands)	**200**	200
Total value of redeemable units held by related parties	**24,556**	23,976
Bank balances	**5,810**	9,336
Due to related parties		
Investment management fees payable to the Fund Manager	**181**	179

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
As at 31 December 2018 and 2017, the Fund held the following financial instruments measured at fair value:

	31 December 2018 AED'000	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*
Financial assets				
Financial assets at fair value through profit or loss	**26,941**	**26,941**	-	-

	31 December 2017 AED'000	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*
Financial assets				
Financial assets at fair value through profit or loss	24,901	24,901	-	-

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.

During the year ended 31 December 2018 and 2017, 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 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 Fund 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 Fund 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 Fund 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 Fund 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 loses 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 Fund 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.

11 FINANCIAL RISK MANAGEMENT AND OBJECTIVES continued

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

	Up to three months AED'000	***From three months to one year AED'000***	***From one year to five years AED'000***	***Unspecified maturity AED'000***	***Total AED'000***
Assets					
Bank balances	**5,810**	-	-	-	**5,810**
Financial assets at fair value through profit or loss	-	-	-	**26,941**	**26,941**
Total	**5,810**	-	-	**26,941**	**32,751**
Liabilities and Net Assets					
Amounts due to related parties	**181**	-	-	-	**181**
Other liabilities	**190**	-	-	-	**190**
Total	**371**	-	-	-	**371**

The maturity profile of assets and liabilities at 31 December 2017 was as follows:

	Up to three months AED'000	*From three months to one year AED'000*	*From one year to five years AED'000*	*Unspecified maturity AED'000*	*Total AED'000*
Assets					
Bank balances	9,336	-	-	-	9,336
Financial assets at fair value through profit or loss	-	-	-	24,901	24,901
Other assets	41	-	-	-	41
Total	9,377	-	-	24,901	34,278
Liabilities and Net Assets					
Amounts due to related parties	179	-	-	-	179
Other liabilities	121	-	-	-	121
Total	300	-	-	-	300

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 Fund 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 Fund 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:

11 FINANCIAL RISK MANAGEMENT AND OBJECTIVES continued

Credit risk continued
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 Fund 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 Fund 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 Fund Manager.

The Fund 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 Fund Manager monitors the credit ratings, internal control and financial position of its custodians on a periodic basis.

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 Fund 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 2018 and 2017, 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 Fund 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.

Where the market risk is not in accordance with the investment policy or guidelines of the Fund, the Fund 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.

11 FINANCIAL RISK MANAGEMENT AND OBJECTIVES continued

Market risk continued
Other price risk continued
The distribution of the Fund's financial assets by geographic region is as follows:

	2018	*2017*
	%	*%*
Geographic region		
Saudi Arabia	**37.12**	55.77
U.A.E	**39.60**	22.73
Kuwait	**8.08**	13.98
Qatar	**1.90**	5.08
Oman	**13.30**	2.44

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

Sector/Industry		
Consumer Staples	**14.8**	13.79
Telecommunication	**12.4**	13.79
Industrial	**13.6**	10.34
Financial	**12.1**	10.34
Consumer Discretionary	**1.1**	3.45
Others	**46**	48.29

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

	2018	*2017*
	%	*%*
Saudi Basic Industries	**6**	8.49
Qatar Industries	**5.2**	3.69
Emirates Telecom Group	**7.2**	6.92
Aramex PJSC	**5.2**	6.37
Saudi Telecom	**1.8**	2.61
Al Rajhi Bank	**4.5**	2.91
Oman Telecommunications	**1.9**	1.04

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 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.

	2018	*2017*
Effect in AED thousand		
Financial assets at fair value through profit or loss	**269**	249
Effect in % of net assets		
Financial assets at fair value through profit or loss	**0.83%**	0.73%

As a result of adverse market movement of 5%, the net asset value of the Fund is expected to decline by AED 1,619 thousand (2017: AED 1,699 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.