

Al Hilal Global Sukuk Fund

FINANCIAL STATEMENTS

31 DECEMBER 2017

Al Hilal Global Sukuk Fund

Financial statements

Contents	Page
Independent auditor's report	1 - 2
Statement of comprehensive income	3
Statement of financial position	4
Statement of changes in net assets attributable to unitholders	5
Statement of cash flows	6
Notes to the financial statements	7– 20

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF AL HILAL GLOBAL SUKUK FUND

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Al Hilal Global Sukuk Fund (the "Fund"), which comprise the statement of financial position as at 31 December 2017, 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 2017 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 Investment Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as the Investment Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 GLOBAL SUKUK 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 Investment Manager.
- Conclude on the appropriateness of the Investment Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



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

29 March 2018
Abu Dhabi

Al Hilal Global Sukuk Fund

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<i>Notes</i>	2017 USD	2016 USD
INCOME			
Net gains from financial assets at fair value through profit or loss	4	294,149	237,832
Revenue from Sukuk profit distribution		1,556,376	1,698,119
Miscellaneous income		<u>6,086</u>	<u>-</u>
		<u>1,856,611</u>	<u>1,935,951</u>
EXPENSES			
Management fee	6	(330,664)	(375,304)
Other expenses	3	<u>(82,016)</u>	<u>(88,051)</u>
		<u>(412,680)</u>	<u>(463,355)</u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>1,443,931</u>	<u>1,472,596</u>

The attached notes 1 to 10 form part of these financial statements.

Al Hilal Global Sukuk Fund

STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 USD	2016 USD
ASSETS			
Bank balances	6	1,055,020	2,198,073
Financial assets at fair value through profit or loss	4	38,338,468	37,359,957
Other assets		<u>321,251</u>	<u>291,620</u>
		<u>39,714,739</u>	<u>39,849,650</u>
LIABILITIES			
Due to related parties	6	86,216	90,852
Other liabilities	5	<u>30,360</u>	<u>22,928</u>
		<u>116,576</u>	<u>113,780</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>39,598,163</u>	<u>39,735,870</u>
Net Asset Value (NAV) per unit, based on outstanding units of 3,838,855 (2016: 3,849,955)	7	<u>10.32</u>	<u>10.32</u>

These financial statements were approved and authorised for issue by the Fund Advisory Board of Al Hilal Global Sukuk Fund on 29 March, 2018 and signed on its behalf by:


Fund Advisory Board member
Fund Advisory Board member

The attached notes 1 to 10 form part of these financial statements.

Al Hilal Global Sukuk Fund

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS For the year ended 31 December 2017

	<i>Number of units</i>	<i>Net assets attributable to unit holders USD</i>
At 1 January 2017	3,849,955	39,735,870
Issue of units during the year	1,127,596	11,523,926
Redemption of units during the year	(1,138,696)	(11,632,967)
Dividend paid during the year	-	(1,472,597)
Increase in net assets attributable to unit holders	<u>-</u>	<u>1,443,931</u>
At 31 December 2017 (note 7)	<u>3,838,855</u>	<u>39,598,163</u>
At 1 January 2016	5,510,010	56,034,007
Issue of units during the year	9,048	91,988
Redemption of units during the year	(1,669,103)	(16,903,615)
Dividend paid during the year	-	(959,106)
Increase in net assets attributable to unit holders	<u>-</u>	<u>1,472,596</u>
At 31 December 2016 (note 7)	<u>3,849,955</u>	<u>39,735,870</u>

The attached notes 1 to 10 form part of these financial statements.

Al Hilal Global Sukuk Fund

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	<i>Note</i>	2017 USD	2016 USD
OPERATING ACTIVITIES			
Increase in net assets from operations		1,443,931	1,472,596
Adjustments for:			
Net gains from financial assets at fair value through profit or loss		<u>(294,149)</u>	<u>(237,832)</u>
		1,149,782	1,234,764
Working capital changes:			
Other assets		(29,631)	190,168
Due to related parties		(4,636)	(157,702)
Other liabilities		<u>7,432</u>	<u>(1,983)</u>
Cash from operations		1,122,947	1,265,247
Purchase of financial assets at fair value through profit or loss		(28,504,241)	(23,829,799)
Proceeds from sale of financial assets at fair value through profit or loss		<u>27,819,879</u>	<u>38,474,056</u>
Net cash from operating activities		<u>438,585</u>	<u>15,909,504</u>
FINANCING ACTIVITIES			
Proceeds from issue of redeemable units		11,523,926	91,988
Payments on redemption of redeemable units		(11,632,967)	(16,903,615)
Dividend paid		<u>(1,472,597)</u>	<u>(959,106)</u>
Net cash used in financing activities		<u>(1,581,638)</u>	<u>(17,770,733)</u>
DECREASE IN CASH AND CASH EQUIVALENTS		(1,143,053)	(1,861,229)
Cash and cash equivalents at 1 January		<u>2,198,073</u>	<u>4,059,302</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		<u>1,055,020</u>	<u>2,198,073</u>

The attached notes 1 to 10 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

1 ACTIVITIES

Al Hilal Global Sukuk Fund ("the Fund") is an open-ended fund established under the authority of the Central Bank Board of Directors' Resolutions No. 164/94/8 and approval of the Securities and Commodities Authority ("SCA") of the UAE dated 5 February 2012 by Al Hilal Bank – Investment Banking Group ("the Investment Manager"). The Fund is not a separately incorporated entity and its activities are managed by the Investment Manager. The custody of the Fund is delegated to HSBC Bank Middle East Limited ("the Custodian") and the administration services is delegated to Apex Fund Services Ltd ("the Fund Administrator").

The Fund aims to generate appropriate periodic returns on its investments giving the Investors a chance to receive periodic coupons in addition to achieving long-term capital growth by investing in a diversified portfolio of Sharia-compliant global fixed-income securities (Sukuk) and in accordance with the controls stipulated in the Investment Guidelines.

The registered address of the Fund is P O Box 63111, Abu Dhabi, UAE.

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) and interpretations issued by the standing interpretation committee of the IASB.

The financial statements have been presented in United States Dollar (USD) which is the functional currency of the Fund. All financial information presented in USD has been rounded to the nearest Dollar.

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 standards and interpretation effective as of 1 January 2017.

New and amended standards and interpretations

The following amendments to IFRS are effective as of the beginning of the year:

- IAS 7 Disclosure Initiative – Amendments to IAS 7;
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12;
- IFRS Practice Statement 2: Making Materiality Judgements

Annual Improvements 2014-2016 Cycle

- IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12

Adoption of the above amended IFRS and improvements to IFRS did not have any significant impact on the financial statements of the Fund.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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

Sukuk profit distribution

Sukuk profit distribution is accrued on a time proportion basis, by reference to the principal outstanding and the profit rate applicable.

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.

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.

Foreign currencies

Transactions in foreign currencies are translated into USD at the spot exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated into USD at the spot exchange rate on that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value through profit or loss are retranslated into USD at the spot exchange rate on the date the fair value was determined.

Foreign currency exchange differences arising on translation of monetary assets and liabilities 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 from financial assets at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets and liabilities

Financial instruments include cash and cash equivalents, financial assets at fair value through profit or loss and certain other assets and liabilities.

Recognition and initial measurement

Financial assets and liabilities at fair value through profit or loss are recognised initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and liabilities are recognised on the date they were originated.

Financial assets and financial liabilities at fair value through profit or loss are measured initially at fair value, with transaction costs recognised in the statement of comprehensive income. Financial assets or financial liabilities not at fair value through profit or loss are measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issuance.

Subsequent measurement

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised directly in the statement of comprehensive income.

Classification

The Fund has classified financial assets and financial liabilities into the following categories:

Financial assets:

- Measured at fair value through profit or loss - Sukuk investments.
- Measured at amortised cost - cash at bank and other assets.

Financial liabilities at amortised cost:

- Other liabilities - amounts due to related party and other liabilities.

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial asset expires, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of the ownership are transferred or in which the Fund neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control on the financial asset. Any interest in transferred financial assets that qualify for derecognition that is carried or retained by the Fund is recognised as separate asset or liability in the statement of financial position. On derecognition of financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in the statement of comprehensive income.

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRSs, for example, for gains and losses arising from a group of similar transactions, such as gains and losses from financial instruments at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets and liabilities continued

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The effective profit rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, when appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective profit rate, the Fund estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is an objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of comprehensive income. For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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 are recognised in the statement of comprehensive income as net gain or loss from financial instruments at fair value through profit or loss.

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.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Fund commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Provisions

Provisions are recognised when the Fund has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

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 number of units outstanding at year end.

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 assets value. The net assets 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 differences in the measurement bases of the Fund's underlying investments and the redemptions amounts of the redeemable units have been adjusted through net gain (loss) from financial assets at fair value through profit and loss.

2.5 STANDARD ISSUED BUT NOT YET EFFECTIVE

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 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRS 9 Financial Instruments
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- Amendments to IAS 40: Transfers of Investment Property
- IFRS 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments.

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

IFRS 9 Financial Instruments

The International Accounting Standard Board issued the final version of IFRS 9 Financial Instruments in July 2014, which replaces IAS 39 Financial Instruments: Recognition and measurement and all previous versions of IFRS 9. The revised standard brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. The final version of IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3 OTHER EXPENSES

	<i>2017</i> <i>USD</i>	<i>2016</i> <i>USD</i>
Legal and professional fees	23,870	26,798
Custody fees	16,776	19,979
Administration fees	29,176	33,116
Others	<u>12,194</u>	<u>8,158</u>
	<u>82,016</u>	<u>88,051</u>

4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2017</i> <i>USD</i>	<i>2016</i> <i>USD</i>
Sukuk investments	<u>38,338,468</u>	<u>37,359,957</u>

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

The change in fair value of financial assets at fair value through profit or loss was recorded as a net unrealized gain on financial assets in statement of comprehensive income as at 31 December 2017 amounting to USD 299,403 (2016: USD 107,877).

During the year, the Fund sold and redeemed some Sukuk investments for the sales proceeds of USD 14,298,968 (2016: USD 38,474,056) and recognised a net loss of USD 5,254 (net Gain in 2016: USD 129,955).

5 OTHER LIABILITIES

	<i>2017</i> <i>USD</i>	<i>2016</i> <i>USD</i>
Professional fees payable	14,293	14,293
Administration fee payable	2,784	3,132
Other payable	<u>13,283</u>	<u>5,503</u>
	<u>30,360</u>	<u>22,928</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

6 RELATED PARTY BALANCES AND TRANSACTIONS

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

Terms and conditions

Key terms and conditions are shown below:

Banking:

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

Others:

The Investment Manager is entitled to investment management fees of 0.85% of net assets value (2016: 0.85%) attributable to unit holders as set out in the Funds' term sheet.

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

	2017	2016
	USD	USD
Management fees	330,664	375,304
Sharia fee	7,500	7,500

Balances with related parties that are disclosed in the statement of financial position are as follows:

	2017	2016
	USD	USD
Bank balances	<u>1,055,020</u>	<u>2,198,073</u>
<i>Due to related parties</i>		
Investment management fees payable to the Investment Manager	<u>86,216</u>	<u>90,852</u>
Number of units held by related parties	<u>1,845,969</u>	<u>1,845,969</u>
Total value of redeemable units held by related parties (in USD)	<u>19,050,400</u>	<u>19,050,400</u>

Compensation of key management personnel

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

7 NET ASSET VALUE

Net Asset Value per share is calculated by dividing the net assets for the year by the number of shares outstanding during the year as follows:

	2017	2016
Net asset attributable to unit holders (USD)	<u>39,598,163</u>	<u>39,735,870</u>
Number of units outstanding	<u>3,838,855</u>	<u>3,849,955</u>
Net asset value per unit (USD)	<u>10.32</u>	<u>10.32</u>

The initial offering of units was at a price of USD 10 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. Redemption is made at the price per unit as determined at the relevant applicable dealing day without any deductions.

8 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.

As at 31 December 2017 and 2016, the Fund held the following financial instruments measured at fair value:

	31 December 2017 USD	Level 1 USD	Level 2 USD	Level 3 USD
Financial assets				
Financial assets at fair value through profit or loss	<u>38,338,468</u>	<u>38,338,468</u>	<u>-</u>	<u>-</u>
	31 December 2016 USD	Level 1 USD	Level 2 USD	Level 3 USD
Financial assets				
Financial assets at fair value through profit or loss	<u>37,359,957</u>	<u>37,359,957</u>	<u>-</u>	<u>-</u>

During the year ended 31 December 2017 and 2016, there were no transfers between or into Level 1, Level 2 and Level 3 fair value measurements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

9 FINANCIAL RISK MANAGEMENT AND OBJECTIVES

Risk management framework

The Fund's principal financial liabilities consist of amounts due to related parties, other payables and net assets attributable to unit holders. 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 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, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, on an ongoing basis, to reflect changes in market conditions, products and services offered.

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

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

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

Liquidity risk

Liquidity risk is the risk that the Fund will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately.

The Fund's approach to manage the risk is to have sufficient liquidity to meet its liabilities, including anticipated redemptions of units, as and when due, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund's liquidity risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures in place. The Fund's overall liquidity risks are monitored on a weekly basis by the Fund Advisory Board.

Under normal operating conditions, up to 25% of Fund NAV may 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 Sharia-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 account for up to 70% of Fund NAV. The Fund's term sheet provides for the weekly redemption of units and it is therefore exposed to the liquidity risk of meeting unit holders' redemptions at any time. The Fund's redemption policy only allows for redemptions on the last day of each week and unit holders must provide at least four business days prior notice of dealing day.

The Fund's financial instruments includes bank balances and listed Sukuk securities which are considered to be readily realisable as they are actively traded globally on major markets.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

9 FINANCIAL RISK MANAGEMENT AND OBJECTIVES continued

Liquidity risk continued

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

	<i>Up to three months USD</i>	<i>From three months to one year USD</i>	<i>From one year to five years USD</i>	<i>More than five years USD</i>	<i>Unspecified maturity USD</i>	<i>Total USD</i>
ASSETS						
Bank balances	1,055,020	-	-	-	-	1,055,020
Financial assets at fair value through profit or loss	-	503,790	12,147,829	25,686,849	-	38,338,468
Other assets	<u>321,251</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>321,251</u>
Total	<u>1,376,271</u>	<u>503,790</u>	<u>12,147,829</u>	<u>25,686,849</u>	<u>-</u>	<u>39,714,739</u>
LIABILITIES AND NET ASSETS						
Due to related parties	86,216	-	-	-	-	86,216
Other liabilities	30,360	-	-	-	-	30,360
Net assets attributable to unitholders	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,598,163</u>	<u>39,598,163</u>
Total	<u>116,576</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,598,163</u>	<u>39,714,739</u>

The maturity profile of assets and liabilities at 31 December 2016 is as follows:

	<i>Up to three months USD</i>	<i>From three months to one year USD</i>	<i>From one year to five years USD</i>	<i>More than five years USD</i>	<i>Unspecified maturity USD</i>	<i>Total USD</i>
ASSETS						
Bank balances	2,198,073	-	-	-	-	2,198,073
Financial assets at fair value through profit or loss	-	502,213	16,516,028	20,642,716	-	37,359,957
Other assets	<u>291,620</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>291,620</u>
Total	<u>2,489,693</u>	<u>502,213</u>	<u>16,516,028</u>	<u>20,642,716</u>	<u>-</u>	<u>39,849,650</u>
LIABILITIES AND NET ASSETS						
Due to related parties	90,852	-	-	-	-	90,852
Other liabilities	22,928	-	-	-	-	22,928
Net assets attributable to unitholders	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,735,870</u>	<u>39,735,870</u>
Total	<u>113,780</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,735,870</u>	<u>39,849,650</u>

The Fund's expected cash flows on these instruments do not vary significantly from this analysis except for net assets attributable to the unit holders, which the Fund has the contractual obligation to redeem within 10 business days from the relevant dealing day. Historical experience indicates that these units are held by unit holders based on medium or long term basis and redemption levels are not expected to exceed 10% of Fund NAV in one dealing day.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

9 FINANCIAL RISK MANAGEMENT AND OBJECTIVES continued

Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. It arises principally from cash at bank and Sukuk investments. 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 it is reasonably practicable after each determination that the portfolio is not in compliance with the stated investment parameters. The Fund's concentration matrix reflecting diversification is as follows:

	2017 %	2016 %
<i>Geographical diversification:</i>		
United Arab Emirates	36.29	43.42
Indonesia	12.88	13.26
Malaysia	11.44	10.00
Turkey	9.29	8.26
Qatar	5.00	7.61
Saudi Arabia	10.73	5.17
Others	14.37	12.28
<i>Sector diversification</i>		
Sovereign	36.22	34.61
Financial	37.35	23.00
Real Estate	1.31	10.77
Services	3.42	8.25
Utilities	13.34	6.92
Others	8.36	16.45

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

Issuer diversification:

2017 Sukuk	%	2016 Sukuk	%
DP World Crescent Limited	4.00	Hong Kong Sukuk 2014 Ltd	8.04
Dubai DOF Sukuk Limited	4.16	SOQ Sukuk AQSC	6.61
Jany Sukuk Co Ltd	.65	Jany Sukuk Co Ltd	5.37
Perusahaan Penerbit SBCN Indonesia iii	4.80	ICD Sukuk Co Ltd	4.71
Emaar Sukuk Limited	3.39	Dar al-Arkan Sukuk Co Ltd	3.44
Garuda Indonesia Global Sukuk Ltd	2.64	Perusahaan Penerbit SBCN Indonesia iii	3.42
Perusahaan Penerbit SBSN Indonesia	1.32	JAFZ Sukuk 2019 Ltd	3.34
RAK Capital Sukuk	1.92	Ooredoo Tamweel Ltd	3.24

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

9 FINANCIAL RISK MANAGEMENT AND OBJECTIVES continued

Credit risk continued

Cash and cash equivalents

The Fund's bank balances are with the custodian. There were no significant concentrations of credit risk to any individual issuer or group of issuers as at 31 December 2017 and 31 December 2016 except the bank balances which are held with the custodian.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

9 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 investing in a balanced portfolio of Sukuk based on Islamic Sharia Rules and Principles, listed in globally recognized 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. Market risk can arise as a result of the following:

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. There are no restrictions on the currency in which the Sukuk are denominated. However, non-USD and non USD-pegged currencies should not account for more than 50% of the Fund's net assets value and no single non-USD currency should account for more than 20% of the Fund's net assets value.

The exchange rate of AED, which is the Fund's largest non-USD currency, 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 USD or in foreign currencies pegged with the USD, the Fund Manager estimates that any reasonable possible changes in exchange rates would not have a significant impact on the Fund's financial statements.

Profit rate risk

Profit rate risk is the risk that arises from timing difference in the re-pricing of the Fund's profit bearing assets and liabilities.

Profit rate risk in trading book is applicable to the Fund's exposure to various Sukuk holdings issued by Governments and Corporates which are classified as Fair Value through Profit and Loss ("FVTPL"). The market value of these Sukuk is impacted as a result of fluctuations in the prevailing levels of profit rates on cash flows. The Investment Manager sets limits on the maximum exposure allowable as a result of adverse profit rate movement.

If the profit rates increased/decreased by 200 basis points, with all other variables remaining constant, the impact on the market value of Sukuk classified at fair value through profit and loss will be as follows:

Impact on results of the Fund

	<i>2017</i>	<i>2016</i>
	<i>USD</i>	<i>USD</i>
± 200 basis points change in profit rates	<u>31,128</u>	<u>33,962</u>

In addition to profit rate risk on financial assets at fair value through profit or loss, the Fund does not have any other profit bearing financial assets and liabilities which are exposed to profit rate risk.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

9 FINANCIAL RISK MANAGEMENT AND OBJECTIVES continued

Market risk continued

Other price risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from currency and profit rate 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:

- Unrated sovereign Sukuk should not account for more than 10% of the Fund's net assets.
- Convertible Sukuk should not account for more than 10% of The Fund's net assets.
- Any Sukuk issuance at the time of investing in them should not account for more than 15% of the Fund's net assets and should not account for more than 15% of the issuance. The Fund shall not invest more than 20% of the Fund's net assets in securities issued by the same group of corporate entities.
- Sovereign and quasi-sovereign issuances should account for at least 30% of the Fund's net assets. The classification of an issuance as quasi-sovereign shall be determined by the Investment Manager in its sole discretion.
- No more than 60% of the Fund's net assets should be held in Sukuk issued by entities in the UAE and, in relation to all other jurisdictions, no more than 50% of the Fund's net assets.
- Under normal operating conditions, up to 25% of the Fund's net assets may 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 Sharia-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 account for up to 70% of the Fund's net assets.

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

Capital management

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's capital is represented by the number of units outstanding. The objective of the Fund is to invest the subscriptions amounts in a portfolio with a view to both achieve and provide capital growth and attractive returns over medium term, while reducing directional downward risk in underlying market.

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.

10 CONTINGENCIES AND COMMITMENTS

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