# Al Yusr SAR Morabaha Fund
# (Managed by Alawwal Invest Company)

## INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018**

EY
Building a better working world

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# INDEPENDENT AUDITORS' REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS TO THE UNITHOLDERS OF AL YUSR SAR MORABAHA FUND (Managed by Alawwal Invest Company)

## Introduction:

We have reviewed the accompanying interim condensed statement of financial position of Al Yusr SAR Morabaha Fund (the "Fund") managed by Alawwal Invest Company (the "Fund Manager") as at 30 June 2018 and the related interim condensed statements of comprehensive income, cash flows and changes in equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

## Scope of Review:

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Waleed G. Tawfiq
Certified Public Accountant
License No. 437

Riyadh: 3 Dhul-Hijjah 1439H
(14 August 2018)

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PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

# INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2018

| | *Notes* | ***30 June 2018 SR*** | *31 December 2017 SR* | *1 January 2017 SR* |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 9 | **3,072,797** | 4,091,718 | 167,106,060 |
| Investments at fair value through profit or loss | 10 | **61,894,823** | 41,498,025 | 70,082,506 |
| Morabaha placements measured at amortised cost | 11 | **256,619,693** | 306,301,360 | 218,794,625 |
| Investments measured at amortised cost | 12 | **95,265,134** | 120,367,234 | 121,945,149 |
| **TOTAL ASSETS** | | **416,852,447** | 472,258,337 | 577,928,340 |
| **LIABILITY** | | | | |
| Accrued expenses | | **50,392** | 6,469 | 72,121 |
| **TOTAL LIABILITY** | | **50,392** | 6,469 | 72,121 |
| **EQUITY** | | | | |
| Net assets attributable to the redeemable unitholders | | **416,802,055** | 472,251,868 | 577,856,219 |
| Units in issue | | **30,361,998** | 34,712,697 | 43,182,435 |
| Net assets value attributable to each unit | | **13.7278** | 13.6046 | 13.3817 |

The accompanying notes 1 to 21 form an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
For the six-month period ended 30 June 2018

| | *Notes* | *2018*<br>*SR* | *2017*<br>*SR* |
|---|---|---|---|
| **INCOME** | | | |
| Net gain from investments at fair value through profit or loss | 13 | **467,693** | 2,258,534 |
| Special commission income | | **5,506,708** | 4,036,143 |
| | | **5,974,401** | 6,294,677 |
| **EXPENSES** | | | |
| Management fees | 16 | **(1,286,127)** | (1,349,859) |
| Other expenses | 15,16 | **(88,656)** | (24,428) |
| | | **(1,374,783)** | (1,374,287) |
| **PROFIT FOR THE PERIOD** | | **4,599,618** | 4,920,390 |
| Other comprehensive Income | | **-** | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **4,599,618** | 4,920,390 |

The accompanying notes 1 to 21 form an integral part of these interim condensed financial statements.

# INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six-month period ended 30 June 2018

| | *2018* *SR* | *2017* *SR* |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit for the period | **4,599,618** | 4,920,390 |
| Adjustments to reconcile profit for the period to net cash flows: | | |
| Unrealized gain on investments at fair value through profit or loss | **(396,798)** | (366,960) |
| | **4,202,820** | 4,553,430 |
| Working capital adjustments: | | |
| (Increase) decrease in investments at fair value through profit or loss | **(20,000,000)** | 30,218,799 |
| Decrease (increase) in morabaha placements measured at amortised cost | **49,681,667** | (6,475,615) |
| Decrease in investments measured at amortised cost | **25,102,100** | 800,594 |
| Increase in accrued expenses | **43,923** | 13,669 |
| Net cash flows from operating activities | **59,030,510** | 29,110,877 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issuances of units | **112,887,544** | 142,586,253 |
| Payment on redemption of units | **(172,936,975)** | (227,704,073) |
| Net cash flows used in financing activities | **(60,049,431)** | (85,117,820) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(1,018,921)** | (56,006,943) |
| Cash and cash equivalents at the beginning of the period | **4,091,718** | 167,106,060 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **3,072,797** | 111,099,117 |

The accompanying notes 1 to 21 form an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the six-month period ended 30 June 2018

| | *2018* *SR* | *2017* *SR* |
|---|---|---|
| **NET ASSETS ATTRIBUTABLE TO THE REDEEMABLE UNITHOLDERS AT THE BEGINNING OF THE PERIOD** | **472,251,868** | 577,856,219 |
| Profit for the period | **4,599,618** | 4,920,390 |
| | **476,851,486** | 582,776,609 |
| **CONTRIBUTIONS AND REDEMPTIONS BY THE REDEEMABLE UNITHOLDERS:** | | |
| Issuance of units during the period | **112,887,544** | 142,586,253 |
| Redemptions of units during the period | **(172,936,975)** | (227,704,073) |
| Net redemptions by the Unitholders | **(60,049,431)** | (85,117,820) |
| **NET ASSETS ATTRIBUTABLE TO THE REDEEMABLE UNITHOLDERS AT THE END OF THE PERIOD** | **416,802,055** | 497,658,789 |

**UNIT TRANSACTIONS**

Transactions in units for the period ended 30 June are summarised as follows:

| | *2018* *Units* | *2017* *Units* |
|---|---|---|
| **UNITS AT THE BEGINNING OF THE PERIOD** | **34,712,697** | 43,182,435 |
| Units issued during the period | **8,282,714** | 10,644,094 |
| Units redeemed during the period | **(12,633,413)** | (16,969,574) |
| **NET (DECREASE) IN UNITS** | **(4,350,699)** | (6,325,480) |
| **UNITS AT THE END OF THE PERIOD** | **30,361,998** | 36,856,955 |

## 1. GENERAL

Al Yusr SAR Morabaha Fund (the "Fund") is an open-ended fund domiciled in Kingdom of Saudi Arabia, created by an agreement between Alawwal Invest Company (the "Fund Manager"), a subsidiary of Alawwal Bank (the "Bank") and investors in the Fund (the "Unitholders").

The Fund's Manager registered office is at P.O. Box 1467, Riyadh 11431, Kingdom of Saudi Arabia.

| Al Yusr SAR Morabaha Fund | |
|---|---|
| Commencement Date | 26 December 2001 |
| Latest Governing Terms and Condition Date | 1 April 2018 |
| Latest Governing Information Memorandum Date | 1 April 2018 |
| Category | Sharia'ah compliant |
| Objective | Capital preservation & appreciation |
| Allowed Investment Channels | Morabaha deposits |
| | Sukuk |
| | Investment products |
| | Morabaha funds |

## 2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the "Regulations") detailing requirements for all investments funds operating within the Kingdom of Saudi Arabia and published by the Capital Market Authority (the "CMA") on 3 Dhul Hijja 1427H (corresponding to 24 December 2006). The Regulations were further amended on 16 Sha'aban 1437H (corresponding to 23 May 2016) (the "Amended Regulations"). The Fund Manager believes that the Amended Regulations was effective since 6 Safar 1438H (corresponding to 6 November 2016).

## 3. BASIS OF PREPARATION

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. The interim condensed financial statements for the six-months period ended 30 June 2018 are the first financial statements of the Fund prepared in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are issued by Saudi Organization of Certified Public Accountants ("IFRS") and IFRS 1 "First-time Adoption" of International Financial Reporting Standards has been applied.

For all periods up to and including the year ended 31 December 2017, the Fund prepared its financial statements in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia ("SOCPA"). Refer to note 18 for information on how the Fund's financial statements are impacted upon the adoption of IFRS.

These interim condensed financial statements have been prepared on a historical cost basis, (except for investments at FVPL which are stated at their fair value) using the accrual basis of accounting and the going concern concept.

The Fund presents its interim condensed statement of financial position in order of liquidity. An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 17.

## 4. FUNCTIONAL AND PRESENTATIONAL CURRENCY

These interim condensed financial statements are presented in Saudi Riyals ("SR"), which is the Fund's functional currency.

Functional currency' is the currency of the primary economic environment in which the Fund operates. If indicators of the primary economic environment are mixed, then management uses its judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The majority of the Fund's investments and transactions are denominated in SR. Investor subscriptions and redemptions are determined based on net asset value, and received and paid in SR. The expenses (including management fees, custodian fees and administration fees) are denominated and paid in SR. Accordingly, management has determined that the functional currency of the Fund is SR.

## 5. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these interim condensed financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Where policies are applicable only after or before 1 January 2018, those policies have been particularly specified.

### 5.1. Financial instruments

In the current period the Fund has adopted IFRS 9 Financial Instruments. See note 19 for an explanation of the impact.

***(i) Classification***

In accordance with IFRS 9, the Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

(a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or

(b) On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking or

(c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

***Financial assets***

The Fund classifies its financial assets either as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

► The entity's business model for managing the financial assets
► The contractual cash flow characteristics of the financial asset

· ***Financial assets measured at amortised cost***

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Fund includes in this category Cash and cash equivalents, Investments in Sukuk / Bond, Money market placements and Morabaha placements, due from brokers and other receivables.

· ***Financial assets measured at fair value through profit or loss (FVPL)***

A financial asset is measured at fair value through profit or loss if:

i. Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding Or

ii. It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell Or

iii. At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Fund includes in this category equity instruments held for trading which are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

**5. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**5.1. Financial instruments (continued)**

***(i) Classification (continued)***

***Financial liabilities***

- ***Financial liabilities measured at fair value through profit or loss (FVPL)***
  A financial liability is measured at FVPL if it meets the definition of held for trading. The Fund does not hold any financial liabilities measured at FVPL.

- ***Financial liabilities measured at amortised cost***
  This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Fund does not hold any financial liabilities measured at amortised cost.

***(ii) Recognition***

The Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. 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 (regular way trades) are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

***(iii) Initial measurement***

Financial assets and financial liabilities at FVPL are recorded in the interim condensed statement of financial position at fair value. All transaction costs for such instruments are recognised directly in interim condensed statement of comprehensive income.

Financial assets and liabilities (other than those classified as at FVPL) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

***(iv) Subsequent measurement***

After initial measurement, the Fund measures financial instruments which are classified as at FVPL, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at FVPL in the interim condensed statement of comprehensive income. Interest and dividends earned or paid on these instruments are recorded separately in interest revenue or expense and dividend revenue or expense in the interim condensed statement of comprehensive income.

***(v) Derecognition***

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired, or the Fund has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Fund has:

(a) Transferred substantially all of the risks and rewards of the asset Or

(b) Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund’s continuing involvement in the asset. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained. The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

**5. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**5.1. Financial instruments (continued)**

***(vi) Impairment of financial assets***

The Fund recognises loss allowances for expected credit losses (ECL) on the financial instruments that are measured at amortize cost that are sukuk, money market placements and morabaha placements. No impairment loss is recognised on equity investments.

The Fund measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured at 12-month ECL:

- Financial assets that are determined to have low credit risk at the reporting date; and
- Financial assets on which credit risk has not increased significantly since their initial recognition

The Fund considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade' or certain un-rated investment with no default in past. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

*Measurement of ECL*

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Fund in accordance with the contract and the cash flows that the Fund expects to receive); and
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

*Presentation of allowance for ECL in the interim condensed statement of financial position*

Loss allowances for ECL are presented in the interim condensed statement of financial position for financial assets measured at amortised cost as a deduction from the gross carrying amount of the assets.

*Significant increase in credit risk*

To determine whether the risk of default on a financial instrument has increased significantly since initial recognition, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and expert credit assessment and including an assessment of the change in probability of default (PD) as at the reporting date with the PD at the time of initial recognition of the exposure.

*Definition of default*

The Fund considers a financial asset to be in default when:

- the investee is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realizing security (if any is held); or
- the investee is past due more than 10 days on any material credit obligation to the Fund.

In assessing whether an investee is in default. The Fund considers indicators that are:

- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Fund; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

## 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 5.1. Financial instruments (continued)

***(vii) Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount is reported in the interim condensed 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 asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the interim condensed statement of financial position.

### 5.2. Cash and cash equivalents

Cash and cash equivalents in the interim condensed statement of financial position comprise cash on hand and short-term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as 'cash and cash equivalents'.

For the purpose of the interim condensed statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when applicable.

### 5.3. Amounts due to and due from brokers

Amounts due to brokers are payables for securities purchased (in a regular way transaction) that have been contracted for, but not yet delivered, on the reporting date. Refer to the accounting policy for financial liabilities, other than those classified as at FVPL, for recognition and measurement.

Amounts due from brokers include margin accounts and receivables for securities sold (in a regular way transaction) that have been contracted for, but not yet delivered, on the reporting date.
Margin accounts represent cash deposits held with brokers as collateral against open futures contracts.

### 5.4. Redeemable Units

Redeemable units are classified as equity instruments when:
- The redeemable units entitle the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation
- The redeemable units are in the class of instruments that is subordinate to all other classes of instruments
- All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features
- The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata share of the Fund's net assets
- The total expected cash flows attributable to the redeemable units over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument

In addition to the redeemable units having all of the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund
- The effect of substantially restricting or fixing the residual return to the redeemable shareholders

The Fund's redeemable participating units meet the definition of puttable instruments classified as equity instruments under IAS 32.16A-B and accordingly, are classified as equity instruments.

The Fund continuously assesses the classification of the redeemable units. If the redeemable units cease to have all the features, or meet all the conditions set out, to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity. If the redeemable units subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions.

No gain or loss is recognised in the interim condensed statement of comprehensive income on the purchase, issuance or cancellation of the Fund's own equity instruments.

## 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 5.5. Special commission income

Special commission income and expense including commission income from non-derivative financial assets held at FVPL, are recognized in interim condensed statement of comprehensive income, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the carrying amount of the financial instrument on initial recognition. When calculating the effective interest rate, the Fund estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Commission received or receivable, and commission paid or payable, are recognised in the interim condensed statement of comprehensive income as commission income and commission expense, respectively.

### 5.6. Dividend income

Dividend income is recognised in the interim condensed statement of comprehensive income on the date on which the right to receive payment is established. For quoted equity securities, this is usually the ex-dividend date. For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend. Dividend income from equity securities designated as at FVPL is recognised in interim condensed statement of comprehensive income in a separate line item.

### 5.7. Net gain or loss on financial assets and liabilities at Fair Value through Profit or Loss ("FVPL")

Net gains or losses on financial assets and liabilities at FVPL are changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as at FVPL and exclude interest and dividend income and expenses.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of the prior period's unrealised gains and losses for financial instruments which were realised in the reporting period. Realised gains and losses on disposals of financial instruments classified as at FVPL are calculated using the weighted average cost method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

### 5.8. Fee and other expenses

Fee and other expenses are recognized on an accrual basis.

### 5.9. Zakat and income tax

Under the current system of taxation in Kingdom of Saudi Arabia the Fund is not liable to pay any zakat or income tax as they are considered to be the obligation of the Unitholders and as such, are not provided in the accompanying interim condensed financial statements.

### 5.10. Foreign currency translation

Transactions in foreign currencies are translated into SR at the exchange rate at the dates of the transactions. Foreign exchange gains and losses arising from translation are included in the interim condensed statement of comprehensive income.

Monetary assets and liabilities denominated in foreign currencies are retranslated into SR at the exchange rate at the reporting date.

Foreign currency differences arising on retranslation are recognised in the interim condensed statement of comprehensive income as net foreign exchange losses, except for those arising on financial instruments at FVPL, which are recognised as a component of net gain from financial instruments at FVPL.

## 6. USE OF JUDGMENTS AND ESTIMATES

The preparation of interim condensed financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Funds' accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Significant areas where management has used estimates, assumptions or exercised judgement are as follows:

***Fair value Measurement***

The Fund measures its investments in financial instruments, such as equity instruments, debentures, other interest bearing investments and derivatives, at fair value at each reporting date. 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 the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted prices available on respective stock exchange, without any deduction for transaction costs. The Fund is using last traded prices which is recognised as standard pricing convention within the industry.

For all other financial instruments not traded in an active market, the fair value is determined using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions, adjusted as necessary, and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

The Fund measures financial instruments at fair value at each interim condensed statement of financial position date. Fair values of those financial instruments are disclosed in note 14.

***Impairment of financial instruments***

The Fund recognizes loss allowances for ECL on the following financial instruments that are not measured at FVPL:

- Placements; and
- Financial assets that are debt instruments and are carried at amortised cost;

No impairment loss is recognized on equity investments. The Fund measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Fund considers a debt investment to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade' or certain un-rated investment with no default in past. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

## 7. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Fund applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018.

The nature and the impact of each new standard and amendment is described below:

***IFRS 9 Financial Instruments***

The Fund adopted this new standard on its effective date of 1 January 2018. The description of this standard and the impact on the adoption date have been disclosed in note 19.

***IFRS 15 Revenue from contracts with customers***

The Fund adopted IFRS 15 *Revenue from contracts with customers* on its effective date of 1 January 2018. IFRS 15 replaces IAS 18 *Revenue* and establishes a five-step model to account for revenue arising from contracts with customers. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 9 without significant changes to the requirements. Therefore, there was no impact of adopting IFRS 15 for the Fund.

## 8. STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are several standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's interim condensed financial statements. In the opinion of the Board, these standards will clearly not impact the Fund. The Fund intends to adopt these standards, if applicable, when they become effective.

## 9. CASH AND CASH EQUIVALENTS

| | ***30 June 2018*** | *31 December 2017* | *1 January 2017* |
|---|---|---|---|
| | ***SR*** | *SR* | *SR* |
| Bank balances | **3,072,797** | 4,091,718 | 167,106,060 |
| Short term placements with other banks | **-** | - | - |
| **Total** | **3,072,797** | 4,091,718 | 167,106,060 |

The bank balances is placed with a local Saudi banks, having sound credit rating.

## 10. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of the investments as at interim condensed statement of financial position date summarized below:

| | *30 June 2018* | | | *31 December 2017* | | | *1 January 2017* | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Cost SR* | *Market value SR* | *Unrealized gain SR* | *Cost SR* | *Market value SR* | *Unrealized gain SR* | *Cost SR* | *Market value SR* | *Unrealized gain SR* |
| ***Mutual fund*** | | | | | | | | | |
| International Trade Finance Fund (Sunbullah SAR) | **40,863,707** | **41,838,128** | **974,421** | 40,863,707 | 41,498,025 | 634,318 | - | - | - |
| SAIB Trade Finance Fund | **20,000,000** | **20,056,695** | **56,695** | - | - | - | - | - | - |
| Falcom SAR Morabaha Fund | - | - | - | - | - | - | 70,000,000 | 70,082,506 | 82,506 |
| | **60,863,707** | **61,894,823** | **1,031,116** | 40,863,707 | 41,498,025 | 634,318 | 70,000,000 | 70,082,506 | 82,506 |

All the investments are made in Kingdom of Saudi Arabia.

## 11. MORABAHA PLACEMENTS MEASURED AT AMORTISED COST

| | *30 June 2018 SR* | *31 December 2017 SR* | *1 January 2017 SR* |
|---|---|---|---|
| Money Market placements | **256,619,693** | 306,301,360 | 218,794,625 |
| | **256,619,693** | 306,301,360 | 218,794,625 |

Counterparties with whom the Fund has made placements have credit ratings of investment grade as issued by rating agencies. The average effective special commission rate on morabaha placements as at the period end is 2.44% p.a. (31 December 2017: 1.94% p.a. and 1 January 2017: 2.55% p.a.).

Morabaha placements measured at amortised cost is subject to impairment assessment based on ECL model as per IFRS 9. The management has assessed that allowances for ECL is not significant.

## 12. INVESTMENTS MEASURED AT AMORTISED COST

| | *30 June 2018 SR* | *31 December 2017 SR* | *1 January 2017 SR* |
|---|---|---|---|
| ***Debt securities*** | | | |
| Al Hilal Bank Sukuk | **36,804,049** | 36,949,228 | 37,180,689 |
| Almarai Sukuk IV | **25,289,429** | 49,523,532 | 49,551,306 |
| Arabian Aramco Total Services Company Sukuk (SATORP) | **18,116,175** | 18,846,856 | 20,162,423 |
| Saudi British Bank (SABB) – Sukuk | **15,055,481** | 15,047,618 | 15,050,731 |
| | **95,265,134** | 120,367,234 | 121,945,149 |

The average effective special commission rate on investments as at the period end is 4.58% p.a. (31 December 2017: 4.27% p.a. and 1 January 2017: 4.21% p.a.).

Investments measured at amortised cost is subject to impairment assessment based on ECL model as per IFRS 9. The management has assessed that allowances for ECL is not significant.

## 13. NET GAIN FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | *For the six-month period ended 30 June* | |
|---|---|---|
| | *2018 SR* | *2017 SR* |
| Realised gain | **70,895** | 1,891,574 |
| Unrealised gain | **396,798** | 366,960 |
| | **467,693** | 2,258,534 |

## 14. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability.

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

| | *30 June 2018* | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| | *SR* | *SR* | *SR* | *SR* |
| Investments at FVPL | **61,894,823** | **-** | **-** | **61,894,823** |
| Total | **61,894,823** | **-** | **-** | **61,894,823** |

| | *31 December 2017* | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| | *SR* | *SR* | *SR* | *SR* |
| Investments at FVPL | 41,498,025 | - | - | 41,498,025 |
| Total | 41,498,025 | - | - | 41,498,025 |

| | *1 January 2017* | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| | *SR* | *SR* | *SR* | *SR* |
| Investments at FVPL | 70,082,506 | - | - | 70,082,506 |
| Total | 70,082,506 | - | - | 70,082,506 |

For assets and liabilities that are measured at fair value on a recurring basis, the Fund identifies transfers between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole), and deems transfers to have occurred at the end of the reporting period during which the change has occurred. During the period, there was no transfer in fair value hierarchy for the financial assets held at fair value through profit or loss.

The fair values of investments measured at amortised cost are set out below:

| | *30 June 2018 SR* | *31 December 2017 SR* | *1 January 2017 SR* |
|---|---|---|---|
| Investments measured at amortised cost | **95,265,134** | 118,452,800 | 119,766,100 |
| | **95,265,134** | 118,452,800 | 119,766,100 |

## 14. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The valuation of investments measured at amortised cost is estimated using contractual cash flows discounted at market yield as of reporting date, which is the sukuk market yield plus the prevailing Saudi Inter Bank offer rates (SIBOR). Input into the discounted cash flow techniques includes market yield, contractual cash flows and primary origination spreads.

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

For all other financial assets and liabilities, the carrying value is an approximation of fair value, including: overdraft and accrued expenses.

## 15. OTHER EXPENSES

| | *For the six-month period ended 30 June* | |
|---|---|---|
| | ***2018*** | *2017* |
| | ***SR*** | *SR* |
| Value Added Tax | **64,306** | - |
| Audit fees | **15,620** | 14,876 |
| CMA monitoring fees | **3,906** | 3,720 |
| Tadawul fees | **2,603** | 2,480 |
| Board member fees (note 16) | **2,221** | 3,352 |
| | **88,656** | 24,428 |

## 16. TRANSACTIONS WITH RELATED PARTIES

*Management fee and other transactions*

The Fund is managed and administered by the Fund Manager. For this service the Fund pays a management fee calculated on every valuation day, at an annual rate of 0.5 % of the Fund's daily net assets. Total management fees for the period amounted to SR 1,286,127 (2017: SR 1,349,859).

Other expenses paid by the Fund Manager on behalf of the Fund are charged to the Fund.

The Bank acts as the Fund's banker and the Fund Manager acted as the custodian to the Fund's investment until 31 March 2018 after that custody was transferred to Riyad Capital Company.

*Board of directors*

The independent directors are entitled to remuneration for their services at rates determined by the Fund's terms and conditions in respect of attending meetings of the board of directors or meetings of the Fund. Independent director's fees are currently SR 3,000 per meeting up to a maximum of 2 meetings per annum per director which is paid equally by all funds supervised by the board, in addition, SR 2,000 are paid to each independent director by the Fund per annum. The directors received total remuneration of SR 2,221 during the period ended 30 June 2018 (2017: SR 3,352), the fees payable to directors at the period-end were SR 2,221 (31 December 2017: SR Nil).

## 16. TRANSACTIONS WITH RELATED PARTIES (continued)

*Units held by related parties*

The balances as at period end resulting from such transactions included in the interim condensed financial statements are as follows:

| *Related party and nature of relationship* | *Nature of transaction* | *30 June 2018 Units* | *31 December 2017 Units* | *1 January 2017 Units* |
|---|---|---|---|---|
| Other funds managed by the Fund Manager | Units held | **803,772** | 995,702 | 1,231,670 |
| Fund Manager | Units held | **2,968,871** | - | - |
| | | **3,772,643** | 995,702 | 1,231,670 |

## 17. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled respectively:

| ***As at 30 June 2018*** | ***Within 12 months SR*** | ***After 12 months SR*** | ***Total SR*** |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | **3,072,797** | - | **3,072,797** |
| Investments at fair value through profit or loss | **61,894,823** | - | **61,894,823** |
| Morabaha placements measured at amortised cost | **256,619,693** | - | **256,619,693** |
| Investments measured at amortised cost | **95,265,134** | - | **95,265,134** |
| **TOTAL ASSETS** | **416,852,447** | - | **416,852,447** |
| **LIABILITY** | | | |
| Accrued expenses | **50,392** | - | **50,392** |
| **TOTAL LIABILITY** | **50,392** | - | **50,392** |

| *As at 31 December 2017* | *Within 12 months SR* | *After 12 months SR* | *Total SR* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 4,091,718 | - | 4,091,718 |
| Investments at fair value through profit or loss | 41,498,025 | - | 41,498,025 |
| Morabaha placements measured at amortised cost | 306,301,360 | - | 306,301,360 |
| Investments measured at amortised cost | 120,367,234 | - | 120,367,234 |
| **TOTAL ASSETS** | 472,258,337 | - | 472,258,337 |
| **LIABILITY** | | | |
| Accrued expenses | 6,469 | - | 6,469 |
| **TOTAL LIABILITY** | 6,469 | - | 6,469 |

## 17. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

| *As at 1 January 2017* | *Within 12 months SR* | *After 12 months SR* | *sTotal SR* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 167,106,060 | - | 167,106,060 |
| Investments at fair value through profit or loss | 70,082,506 | - | 70,082,506 |
| Morabaha placements measured at amortised cost | 218,794,625 | - | 218,794,625 |
| Investments measured at amortised cost | 121,945,149 | - | 121,945,149 |
| **TOTAL ASSETS** | 577,928,340 | - | 577,928,340 |
| **LIABILITY** | | | |
| Accrued expenses | 72,121 | - | 72,121 |
| **TOTAL LIABILITY** | 72,121 | - | 72,121 |

## 18. FIRST-TIME ADOPTION OF IFRS

As stated in note 3, these interim condensed financial statements are the first financial statements prepared by the Fund's in accordance with IFRS.

The accounting policies set out in note 5 have been applied in preparing the financial statements for the year ended 31 December 2017 and in the preparation of an opening IFRS statement of financial position at 1 January 2017 (the Fund's date of transition) except for IFRS 9 as disclosed in note 19.

In preparing its opening IFRS statement of financial position, the Fund has adjusted amounts reported previously in financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia ("SOCPA") (previous GAAP).
An explanation of how the transition from previous GAAP to IFRS has affected the Fund's financial position and comprehensive income, is set out in the following tables and the notes that accompany the tables:

| ***31 December 2017*** | *Note* | ***Previous GAAP SR*** | ***Effect of transition to IFRS SR*** | ***IFRS SR*** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | *a* | 4,091,718 | - | 4,091,718 |
| Trading investments | *a* | 41,498,025 | - | 41,498,025 |
| Morabaha placements | *a* | 306,000,000 | 301,360 | 306,301,360 |
| Held to maturity investments | *a* | 118,452,800 | 1,914,434 | 120,367,234 |
| Accrued income | *a* | 896,950 | (896,950) | - |
| Receivables and prepayments | *a* | 1,318,844 | (1,318,844) | - |
| **TOTAL ASSETS** | | 472,258,337 | - | 472,258,337 |
| **LIABILITY** | | | | |
| Accrued expenses | | 6,469 | - | 6,469 |
| **TOTAL LIABILITY** | | 6,469 | - | 6,469 |
| **NET ASSETS** | | 472,251,868 | - | 472,251,868 |

## 18. FIRST-TIME ADOPTION OF IFRS (continued)

| *1 January 2017* | *Note* | *Previous GAAP SR* | *Effect of transition to IFRS SR* | *IFRS SR* |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | *a* | 167,106,060 | - | 167,106,060 |
| Trading investments | *a* | 70,082,506 | - | 70,082,506 |
| Morabaha placements | *a* | 216,000,000 | 2,774,314 | 218,774,314 |
| Held to maturity investments | *a* | 119,766,100 | 2,199,360 | 121,965,460 |
| Accrued income | *a* | 3,434,135 | (3,434,135) | - |
| Receivables and prepayments | *a* | 1,539,539 | (1,539,539) | - |
| **TOTAL ASSETS** | | 577,928,340 | - | 577,928,340 |
| **LIABILITY** | | | | |
| Accrued expenses | | 72,121 | - | 72,121 |
| **TOTAL LIABILITY** | | 72,121 | - | 72,121 |
| **NET ASSETS** | | 577,856,219 | - | 577,856,219 |

*(a) Accrued income, receivable and prepayments*

Under previous GAAP, accrued income, receivable and prepayments (i.e. premium and brokerage fee incurred as part of transaction cost) was reported separately on the statement of financial position. Under IFRS, accrued income and the transaction cost are integral part of amortise cost measurement (previously reported as held to maturity investments). Therefore, accrued income, receivable and prepayments have been reclassified with the financial assets measured at amortised cost.

## 19. IMPACT OF CHANGE IN ACCOUNTING POLICIES

The Fund has adopted IFRS 9 “Financial Instruments” from its effective date of 1 January 2018. Based on which the Fund has evaluated the classification and measurement of all its financial instruments under IFRS 9.

The Fund’s hold investments that are either held for trading and/or managed or evaluated on a fair value basis, they have remained classified as fair value through profit or loss up to upon adoption of IFRS 9. The adoption of IFRS 9 therefore has not resulted in any change to the classification or measurement of financial instruments, in either the current or prior period.

In addition, the Fund’s hold investments that are either morabaha placements and/or sukuk investments held to maturity; which are measured at amortised cost. These investments have remained classified as “morabaha placements” and “held to maturity investments”, respectively up to upon adoption of IFRS 9. Since measurement of these investments were carried at amortised cost, the adoption of IFRS 9 therefore has not resulted in any change to the measurement of financial instruments, in either the current or prior period but these investments were reclassified as “morabaha placements at amortised cost” and “investments at amortised cost” respectively..

## 20. VALUATION PERIOD

The last valuation day of the period was 30 June 2018 (2017: 31 December 2017).

## 21. APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements are approved by the Fund Board on 3 Dhul-Hijjah 1439H (Corresponding to 14 August 2018).