

GCC Equity Fund
(Managed by Alawwal Invest Company)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019



Ernst & Young & Co. (Certified Public Accountants) Registration No. 45/11/323
General Partnership C.R. No. 1010383821
Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730

ey.ksa@sa.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS' OF GCC EQUITY FUND (Managed by Alawwal Invest Company)

Opinion

We have audited the financial statements of GCC Equity Fund (the "Fund") managed by Alawwal Invest Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. 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 professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the applicable provisions of the Investment Funds Regulations issued by the Board of the Capital Market Authority, and the Fund's terms and conditions and the Information Memorandum, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management 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's Board of Directors are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 GCC EQUITY FUND
(Managed by Alawwal Invest Company) (continued)**

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with the Fund's Board of Directors 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.

for Ernst & Young

Yousef A. AlMubarak
Certified Public Accountant
License No. (427)



Riyadh: 9 Sha'aban 1441H
(2 April 2020)

GCC Equity Fund (Managed by Alawwal Invest Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Note</i>	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
ASSETS			
Cash and cash equivalents		1,131,897	5,605,874
Investments designated at fair value through profit or loss (FVTPL)	5	9,837,712	18,082,716
Receivables and advances		3,524	5,175
TOTAL ASSETS		10,973,133	23,693,765
LIABILITY			
Accrued expenses	8	73,071	106,072
EQUITY			
Net assets attributable to the redeemable unitholders		10,900,062	23,587,693
TOTAL LIABILITY AND EQUITY		10,973,133	23,693,765
Units in issue		744,612	1,787,738
Net assets value attributable to each unit		14.6386	13.1942

The accompanying notes 1 to 15 form an integral part of these financial statements.

GCC Equity Fund (Managed by Alawwal Invest Company)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 SR	2018 SR
INCOME			
Net gain from investments designated at FVTPL	6	1,987,583	1,861,081
Dividend income		588,899	575,166
		<u>2,576,482</u>	<u>2,436,247</u>
EXPENSES			
Management fees	7	(289,007)	(494,357)
Other expenses	9	(139,549)	(98,336)
		<u>(428,556)</u>	<u>(592,693)</u>
NET INCOME FOR THE YEAR		2,147,926	1,843,554
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>2,147,926</u>	<u>1,843,554</u>

The accompanying notes 1 to 15 form an integral part of these financial statements.

GCC Equity Fund (Managed by Alawwal Invest Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	<i>Note</i>	2019 SR	2018 SR
EQUITY AT THE BEGINNING OF THE YEAR		23,587,693	26,429,641
Profit for the year		2,147,926	1,843,554
Other comprehensive income		-	-
Total comprehensive income		2,147,926	1,843,554
Issuance of units during the year		2,000,000	-
Redemptions of units during the year		(16,835,557)	(4,685,502)
EQUITY AT THE END OF THE YEAR		10,900,062	23,587,693
		<u><i>Units</i></u>	<u><i>Units</i></u>
REDEEMABLE UNIT TRANSACTIONS			
Transactions in redeemable units during the year are summarised as follows:			
UNITS AT THE BEGINNING OF THE YEAR		1,787,738	2,139,998
Units issued during the year		140,698	-
Units redeemed during the year		(1,183,824)	(352,260)
NET DECREASE IN UNITS		(1,043,126)	(352,260)
UNITS AT THE END OF THE YEAR		744,612	1,787,738

The accompanying notes 1 to 15 form an integral part of these financial statements.

GCC Equity Fund (Managed by Alawwal Invest Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

		2019 SR	2018 SR
CASH FLOWS FROM OPERATING ACTIVITIES	<i>Note</i>		
Net income for the year		2,147,926	1,843,554
Adjustments to reconcile profit for the year to net cash flows:			
Unrealized gain on investments designated at FVTPL	6	(679,833)	(2,403,600)
		1,468,093	(560,046)
Working capital adjustments:			
Decrease in investments designated at FVTPL		8,924,837	3,303,815
Decrease (increase) in receivables and advances		1,651	(785)
(Decrease) increase in accrued expenses		(33,001)	104,659
Net cash flows from operating activities		10,361,580	2,847,643
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuances of units		2,000,000	-
Payment on redemption of units		(16,835,557)	(4,685,502)
Net cash flows used in financing activities		(14,835,557)	(4,685,502)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(4,473,977)	(1,837,859)
Cash and cash equivalents at the beginning of the year		5,605,874	7,443,733
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		1,131,897	5,605,874

The accompanying notes 1 to 15 form an integral part of these financial statements.

GCC Equity Fund (Managed by Alawwal Invest Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

1. INCORPORATION AND ACTIVITIES

GCC Equity 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 The Saudi British Bank (formerly 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.

GCC Equity Fund	
Commencement Date	30 November 2005
Latest Governing Terms and Condition Date	7 November 2019
Latest Governing Information Memorandum Date	7 November 2019
Category	Conventional
Objective	Long-term capital appreciation
Allowed Investment Channels	GCC equity markets
	Money market funds

The Fund has appointed Riyadh Capital Company (the “Custodian”) to act as its custodian and registrar. The fees of the custodian and registrar’s services are paid by the Fund.

The Fund Manager is responsible for the overall management of the Fund’s activities. The Fund Manager can also enter into arrangements with other institutions for the provision of investment, custody or other administrative services on behalf of the Fund.

Based on historical information, 66% of the Fund’s units are redeemed throughout the year.

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 AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in the KSA”).

3.2 Basis of preparation

These financial statements have been prepared on a historical cost basis, using the accrual basis of accounting except for financial assets held at FVTPL that are measured at fair value. These financial statements are presented in Saudi Arabian Riyals (“SR”), which is the Fund’s functional currency. All financial information presented has been rounded to the nearest SR.

3.3 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents in the 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 statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when applicable.

Financial instruments

(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 does not hold any financial assets measured at amortised cost.

• ***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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

3.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of financial position at fair value. All transaction costs for such instruments are recognised directly in 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 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 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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(vi) Offsetting of financial instruments

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

(vii) Impairment of financial assets

The Fund assesses on a forward looking basis the Expected Credit Losses (“ECL”) associated with its financial assets, carried at amortised cost, the ECL is based on a 12-month ECL and lifetime ECL. The 12-month ECL is the portion of lifetime the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

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 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.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

For assets and liabilities that are recognized in financial statements at fair value on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each year. The Fund determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

At each reporting date, the Fund analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund’s accounting policies. For this analysis, the Fund verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Fund also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in note 10.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade date accounting

All regular way purchases and sales of financial assets are recognized / derecognized on the trade date (i.e. the date that the Fund commits to purchase or sell the assets). Regular way purchases or sales are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

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.

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 can be measured reliably. If the effect of time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risk specific to the liability. When discounting is used, the increase in the provision due to passage of time is recognised as finance costs.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured.

Accrued expenses

Liabilities are recognized for amounts to be paid in the future for services received, whether billed by the suppliers or not. These are initially recognized at fair value and subsequently at amortized cost using the effective interest rate method.

Redeemable units

Redeemable units are classified as equity instruments when:

- The redeemable units entitle the Unitholder 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 Unitholder'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 shares 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 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 net assets attributable to the Unitholders. 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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Redeemable units (continued)

The Fund classifies its net assets attributable to the unitholders as equity because it meets the criteria described above. As such, the issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions. No gain or loss is recognised in the statement of comprehensive income on the purchase, issuance or cancellation of the Fund's own equity instruments.

Net assets value per unit

Net assets value per unit as disclosed in the statement of financial position is calculated by dividing the net assets of the Fund by the number of units outstanding at year end.

Management fees

Fund management fees are recognised on accrual basis and charged to the statement of comprehensive income. Fund management fee is charged at agreed rates with the Fund Manager and as stated in the terms and conditions of the Fund.

Special commission income

Special commission income including special commission income from non-derivative financial assets measured at amortised cost, are recognized in the statement of comprehensive income, using 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 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.

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

Unrealised gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of the prior year'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 FVTPL 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).

Dividend income

Dividend income is recognised in the 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 statement of comprehensive income in a separate line item.

Fee and other expenses

Fee and other expenses are recognized on an accrual basis.

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 financial statements.

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 statement of comprehensive income.

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

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

Foreign currency differences arising on retranslation are recognised in the 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.

3.4 New standards, interpretations and amendments

There are new standards, amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Fund.

3.5 Standards issued but not yet effective

There are several amendments and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements. In the opinion of the Board, these will have no impact on the financial statements of the Fund. The Fund intends to adopt those amendments and interpretations, if applicable, when they become effective.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of 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:

Going concern

The Board of Directors, in conjunction with the Fund Manager made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value Measurement

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price available on respective stock exchange, without any deduction for transaction costs. The Fund is using the 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 reporting date. Fair values of those financial instruments are disclosed in note 10.

GCC Equity Fund (Managed by Alawwal Invest Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

5. INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments comprise the following sector exposures as at statement of financial position date:

	31 December 2019				31 December 2018			
	% of Value	Cost SR	Market value SR	Unrealized gain (loss) SR	% of value	Cost SR	Market value SR	Unrealized gain (loss) SR
Equities								
Banks	36.12	3,169,107	3,552,960	383,853	35.95	5,225,474	6,501,277	1,275,803
Materials	11.97	1,213,078	1,177,265	(35,813)	20.29	3,775,939	3,669,512	(106,427)
Energy	10.50	1,055,867	1,033,070	(22,797)	1.39	271,818	250,500	(21,318)
Telecommunication Services	7.01	624,565	689,360	64,795	4.19	684,800	758,185	73,385
Consumer Services	4.55	338,862	447,366	108,504	4.96	893,288	897,763	4,475
Retailing	2.96	268,410	290,765	22,355	3.05	682,205	551,572	(130,633)
Health Care Equipment and Svc	2.22	251,107	218,850	(32,257)	1.60	362,884	289,772	(73,112)
Food and Beverages	2.13	200,336	209,171	8,835	3.52	775,327	636,016	(139,311)
Utilities	1.35	116,261	133,452	17,191	1.55	347,082	280,847	(66,235)
Insurance	0.96	81,563	95,232	13,669	0.70	93,609	125,846	32,237
Food & Staples Retailing	0.89	78,125	87,613	9,488	-	-	-	-
Capital Goods	0.28	41,833	27,360	(14,473)	0.88	219,625	158,760	(60,865)
Real Estate Management and Development	-	-	-	-	0.40	94,400	71,980	(22,420)
Transportation	-	-	-	-	0.14	33,684	25,956	(7,728)
Others	19.06	2,135,309	1,875,248	(260,061)	21.38	5,039,125	3,864,730	(1,174,395)
	100	9,574,423	9,837,712	263,289	100	18,499,260	18,082,716	(416,544)

GCC Equity Fund (Managed by Alawwal Invest Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

5. INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The geographical exposure of the investment portfolio as at statement of financial position date as follow:

	31 December 2019				31 December 2018			
	<i>% of value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealized gain (loss) SR</i>	<i>% of value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealized gain (loss) SR</i>
<i>Equities</i>								
Kingdom of Saudi Arabia	80.94	7,439,116	7,962,464	523,348	78.63	13,460,135	14,217,985	757,850
State of Kuwait	12.12	1,455,254	1,192,516	(262,738)	13.00	3,501,828	2,350,573	(1,151,255)
United Arab Emirates	6.94	680,053	682,732	2,679	8.37	1,537,297	1,514,158	(23,139)
	100	9,574,423	9,837,712	263,289	100	18,499,260	18,082,716	(416,544)

GCC Equity Fund (Managed by Alawwal Invest Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

6. NET GAIN FROM INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
Realised (loss)/ gain	1,307,750	(542,519)
Unrealised gain	679,833	2,403,600
Total	1,987,583	1,861,081

7. 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 1.95 % of the Fund's daily net assets. In addition, the Fund Manager charges a subscription fee of 1.5 % on gross subscriptions to cover administration costs and a redemption fee of 0.5% on redemptions within a month of subscribing, which is reinvested in the Fund. Total management fees for the year amounted to SR 289,007 (31 Dec 2018: SR 494,357). Other expenses paid by the Fund Manager on behalf of the Fund are charged to the Fund.

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.

Units held by related parties

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

	<i>Nature of transaction</i>	<i>31 December 2019</i>	<i>31 December 2018</i>
		<i>Units</i>	<i>Units</i>
Employees of the Bank	Units held	500	500
		500	500

8. ACCRUED EXPENSES

	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
Auditor fees payable	35,000	30,000
Benchmarking fees payable	15,000	12,750
CMA monitoring fees payable	7,500	7,500
SACP Tadawul fees payable	5,000	5,000
Board members fees payable	8,571	4,267
Custody fee payable	2,000	2,000
Management Fees payable	-	39,504
VAT	-	5,051
	73,071	106,072

GCC Equity Fund (Managed by Alawwal Invest Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

9. OTHER EXPENSES

	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
Audit fees	35,000	30,000
Brokerage	25,649	7,301
Custody fee	24,000	4,000
Value Added Tax	18,829	27,518
Standard & Poor's benchmark fees	15,000	12,750
CMA monitoring fees	7,500	7,500
Board member fees (note 7)	8,571	4,267
Tadawul fees	5,000	5,000
	139,549	98,336

10. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Fund has only investments at fair value through profit or loss which is measured at fair values and are classified within level 1 of the fair value hierarchy. Management believes that the fair value of all other financial assets and liabilities at the reporting date approximate their carrying values owing to their short-term tenure and the fact that these are readily liquid. These are all classified within level 2 of the fair value hierarchy. There were no transfers between various levels of fair value hierarchy during the current year or prior year.

11. 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:

<i>As at 31 December 2019</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Cash and cash equivalents	1,131,897	-	1,131,897
Investments at FVTPL	9,837,712	-	9,837,712
Receivables and advances	3,522	-	3,522
TOTAL ASSETS	10,973,131	-	10,973,131
LIABILITY			
Accrued expenses	73,071	-	73,071
TOTAL LIABILITY	73,071	-	73,071

GCC Equity Fund (Managed by Alawwal Invest Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

11. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

<i>As at 31 December 2018</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Cash and cash equivalents	5,605,874	-	5,605,874
Investments at fair value through profit or loss	18,082,716	-	18,082,716
Receivables and advances	5,175	-	5,175
TOTAL ASSETS	23,693,765	-	23,693,765
LIABILITY			
Accrued expenses	106,072	-	106,072
TOTAL LIABILITY	106,072	-	106,072

12. FINANCIAL RISK MANAGEMENT

The Fund has exposure to the following risks from financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk;

This note presents information about the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

Financial risk management framework

The Fund's objective in managing risk is the creation and protection of unitholder value. Risk is inherent in the Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Fund's continuing profitability. The Fund is exposed to credit risk, liquidity risk and market risk (which includes interest rate risk, currency risk and price risk).

The Fund's investment manager has been given discretionary authority to manage the assets in line with the Fund's investment objectives. The compositions of the portfolio are monitored by the Fund Board on a semi-annual basis.

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Fund has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

In order to avoid excessive concentrations of risk, the Fund's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The investment manager is instructed to reduce exposure or to use derivative instruments to manage excessive risk concentrations when they arise.

GCC Equity Fund (Managed by Alawwal Invest Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

12. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund does not have a formal internal grading mechanism. Credit risk is managed and controlled by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Credit risks are generally managed on the basis of external credit ratings of the counterparties. The Fund Manager seeks to limit its credit risk by monitoring credit exposure and by dealing with reputed counterparties.

The Fund is exposed to credit risk on its bank balance which is held with Alawwal bank, the parent of the Fund Manager.

The table below shows the maximum exposure to credit risk for the component of the statement of financial position.

	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
Cash and cash equivalents	1,131,897	5,605,874
<i>Total exposure to credit risk</i>	1,131,897	5,605,874

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities that are settled by delivering cash or another financial assets.

The Fund's terms and conditions provide for the terms of subscriptions and redemptions of units and it is, therefore, exposed to the liquidity risk of meeting unitholder redemptions. However, the Fund is allowed to borrow in order to satisfy redemptions. The Fund's securities are considered to be readily realizable as they are all listed on stock markets. The Fund Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet any commitments as they arise.

Market Risk

Market Risk is the risk that changes in market prices - such as foreign exchange rates, interest rates and equity prices will affect the Fund's income or the fair value of its holdings in financial instruments.

The Fund's strategy for the management of market risk is driven by the Fund's investment objective as per Fund's terms and conditions. The Fund's market risk is managed on a timely basis by the investment manager in accordance with the policies and procedures in place. The Fund's market positions are monitored on a timely basis by the Fund Manager.

Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate because of changes in market prices.

The Fund's investments are susceptible to market price risk arising from uncertainties about future prices. The Fund Manager manages this risk through diversification of its investment portfolio in terms of geographical distribution and industry concentration.

Sensitivity analysis

The table below sets out the effect on profit or loss of a reasonably possible weakening / strengthening in the individual equity market prices of 5% at reporting date. The estimates are made on an individual investment basis. The analysis assumes that all other variables, in particular interest and foreign currency rates, remain constant.

	<i>2019</i>		<i>2018</i>	
		<i>SR</i>		<i>SR</i>
<i>Net gain (loss) on investments held at FVPL</i>	+ 5%	99,379	+ 5%	93,054
	- 5%	(99,379)	- 5%	(93,054)

12. FINANCIAL RISK MANAGEMENT (continued)

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 invests in securities and other investments that are denominated in currencies other than the Saudi Riyal. Accordingly, the value of the Fund's assets may be affected favourably or unfavourably by fluctuations in currency rates. Therefore, the Fund will necessarily be subject to foreign exchange risks. Since the foreign currency risk is considered as part of the market risk associated with the fair value of the funds foreign equity investments, the Fund's management believes that there is minimal risk of significant losses due to exchange rate fluctuation and foreign exchange gains and losses are not significant.

13. EVENTS AFTER THE REPORTING PERIOD

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these financial statements. These developments could impact our future financial results, cash flows and financial condition.

No events have occurred subsequent to the reporting date and before the issuance of these financial statements, which require adjustments to and/or disclosure in these financial statements.

14. VALUATION PERIOD

The last valuation day of the year was 31 December 2019 (2018: 31 December 2018).

15. APPROVAL OF FINANCIAL STATEMENTS

These financial statements are approved by the Fund Board on 9 Sha'aban 1441H (Corresponding to 2 April 2020).