

**GCC Equity Fund**  
**Managed by Alawwal Invest Company**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2017**



Ernst & Young & Co. (Public Accountants)  
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## **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 balance sheet as at 31 December 2017, and the statement of operations, statement of cash flows and statement of changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

### **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 accounting standards generally accepted in the Kingdom of Saudi Arabia 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)**

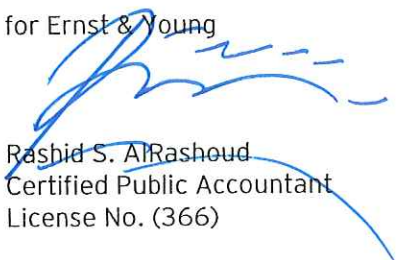
**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

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

  
Rashid S. AlRashoud  
Certified Public Accountant  
License No. (366)



Riyadh: 15 Rajab 1439H  
(01 April 2018)

## GCC Equity Fund (Managed by Alawwal Invest Company)

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### BALANCE SHEET

As at 31 December 2017

	<i>Note</i>	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
<b>ASSETS</b>			
Bank balance		<b>7,443,733</b>	7,685,994
Trading investments	4	<b>18,982,931</b>	20,161,989
Receivables and advances		<b>4,390</b>	2,400
<b>TOTAL ASSETS</b>		<b>26,431,054</b>	27,850,383
<b>LIABILITY</b>			
Accrued expenses		<b>1,413</b>	67,880
<b>NET ASSETS</b>		<b>26,429,641</b>	27,782,503
Units in issue		<b>2,139,998</b>	2,326,029
Per unit value		<b>12.3503</b>	11.9442

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The accompanying notes 1 to 10 form an integral part of these financial statements.

## GCC Equity Fund (Managed by Alawwal Invest Company)

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### STATEMENT OF OPERATIONS

Year ended 31 December 2017

	<i>Notes</i>	<i>2017 SR</i>	<i>2016 SR</i>
<b>INVESTMENT INCOME</b>			
Trading income, net	5	<b>1,494,339</b>	1,746,234
Special commission income		-	32
		<hr/> <b>1,494,339</b> <hr/>	<hr/> 1,746,266 <hr/>
<b>EXPENSES</b>			
Management fees	7	<b>(516,816)</b>	(508,172)
Other expenses	6,7	<b>(70,100)</b>	(83,270)
		<hr/> <b>(586,916)</b> <hr/>	<hr/> (591,442) <hr/>
<b>NET INCOME FOR THE YEAR</b>		<hr/> <b>892,423</b> <hr/>	<hr/> 1,154,824 <hr/>

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## GCC Equity Fund (Managed by Alawwal Invest Company)

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### STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	2017 SR	2016 SR
<b>OPERATING ACTIVITIES</b>		
Net income for the year	<b>892,423</b>	1,154,824
Adjustment for:		
Unrealised gains on trading investments	<b>196,632</b>	(2,704,138)
	<b>1,089,055</b>	(1,549,314)
Changes in operating asset and liability:		
Trading investments	<b>982,426</b>	3,964,714
Receivables and advances	<b>(1,990)</b>	281,200
Accrued expenses	<b>(66,467)</b>	67,880
Net cash from operating activities	<b>2,003,024</b>	2,764,480
<b>FINANCING ACTIVITY</b>		
Value of units redeemed	<b>(2,245,285)</b>	(451,049)
Net cash used in financing activity	<b>(2,245,285)</b>	(451,049)
<b>(DECREASE) INCREASE IN BANK BALANCE</b>	<b>(242,261)</b>	2,313,431
Bank balance at the beginning of the year	<b>7,685,994</b>	5,372,563
<b>BANK BALANCE AT THE END OF THE YEAR</b>	<b>7,443,733</b>	7,685,994

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The accompanying notes 1 to 10 form an integral part of these financial statements.

## GCC Equity Fund (Managed by Alawwal Invest Company)

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### STATEMENT OF CHANGES IN NET ASSETS

Year ended 31 December 2017

	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
<b>NET ASSET VALUE AT THE BEGINNING OF THE YEAR</b>	<b>27,782,503</b>	<b>27,078,728</b>
<b>CHANGES FROM OPERATIONS</b>		
Net income for the year	<b>892,423</b>	1,154,824
<b>CHANGES FROM UNIT TRANSACTIONS</b>		
Value of units redeemed	<b>(2,245,285)</b>	(451,049)
Net change from unit transactions	<b>(2,245,285)</b>	(451,049)
<b>NET ASSET VALUE AT THE END OF THE YEAR</b>	<b>26,429,641</b>	<b>27,782,503</b>

### UNIT TRANSACTIONS

Transactions in units for the year ended 31 December are summarised as follows:

	<i>2017</i> <i>Units</i>	<i>2016</i> <i>Units</i>
<b>UNITS AT THE BEGINNING OF THE YEAR</b>	<b>2,326,029</b>	<b>2,366,730</b>
Units redeemed	<b>(186,031)</b>	(40,701)
Net decrease in units	<b>(186,031)</b>	(40,701)
<b>UNITS AT THE END OF THE YEAR</b>	<b>2,139,998</b>	<b>2,326,029</b>

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The accompanying notes 1 to 10 form an integral part of these financial statements.



# GCC Equity Fund (Managed by Alawwal Invest Company)

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

### 1 GENERAL

GCC Equity Fund (the "Fund") is an open ended fund 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")

GCC Equity Fund	
Commencement date	30 November 2005
Latest governing T&C date	31 December 2017
Category	Conventional
Objective	Long-term capital appreciation
Allowed investment channels	GCC equity markets
	Times deposits
	Money market funds

The books and records of the Fund are maintained in Saudi Riyals (SR).

### 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 06 November 2016).

### 3 SIGNIFICANT ACCOUNTING POLICIES

#### *New accounting framework*

According to the transition plan to International Accounting Standards approved by the board of Saudi Organization for Certified Public Accountants (SOCPA), effective 1 January 2018, the Fund's financial statements will be prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are issued by SOCPA. Upon IFRS adoption, the Fund will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards which require the Fund to analyze the impacts and incorporate certain adjustments on the comparative figures and its opening balances.

These financial statements have been prepared in accordance with the accounting standard generally accepted in the Kingdom of Saudi Arabia.

The significant accounting policies adopted are as follows:

#### *Accounting convention*

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of trading investments.

#### *Investment valuation*

Investments which are purchased for trading purposes are valued at their quoted bid market price as at the balance sheet date. Unrealised gains and losses on the revaluation of investments and realised gains and losses on the disposal of investments are recognised in the statement of operations.

#### *Investment transactions*

Investment transactions are accounted for as on the trade date.

#### *Zakat and income tax*

Zakat and income tax are considered to be the obligation of the Unitholders and are not provided for in these financial statements.



# GCC Equity Fund (Managed by Alawal Invest Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Revenue recognition*

Dividend income is recorded when declared. Special commission income is recognised on an effective yield basis.

Realised gains and losses on investments sold are determined on an average cost basis.

Trading income includes all gains and losses from changes in fair value and related dividends from trading investments.

#### *Expenses*

Expenses are recognised based on the accrual method.

#### *Foreign currencies*

Transactions in foreign currencies are translated into Saudi Riyals at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date. Resulting exchange gains and losses are taken to the statement of operations.

### 4 TRADING INVESTMENTS

Investments comprise the following sectorial exposures as at 31 December:

	2017		2016	
	Cost SR	Market value SR	Cost SR	Market value SR
<i>Equities</i>				
Banks	6,480,549	6,060,751	6,714,816	5,529,656
Materials	4,091,709	3,744,293	4,529,956	3,978,422
Food & Beverages	1,071,558	898,363	747,702	566,182
Telecommunication services	1,030,127	854,133	653,612	687,930
Energy	937,587	828,226	614,583	616,310
Capital Goods	766,142	462,563	572,313	363,106
Retailing	509,721	337,573	622,104	466,385
Consumer Services	475,528	342,142	499,960	424,367
Insurance	399,380	419,331	418,577	518,912
Utilities	347,082	390,292	172,504	225,700
Food & Staples Retailing	256,950	301,791	269,834	287,326
Consumer Durables & Apparel	154,933	91,530	618,502	396,669
Health Care Equipment & Svc	114,600	141,722	194,880	228,424
Real Estate Mgmt & Dev't	94,400	66,080	495,700	482,953
Transportation	33,684	33,020	35,288	58,221
Others	5,039,125	4,011,121	6,007,612	5,331,426
<b>Total</b>	<b>21,803,075</b>	<b>18,982,931</b>	<b>23,167,943</b>	<b>20,161,989</b>

The geographical exposure of the trading investments as at 31 December is as follows:

	2017		2016	
	Cost SR	Market value SR	Cost SR	Market value SR
<i>Equities</i>				
Kingdom of Saudi Arabia	16,763,950	14,971,810	17,160,331	14,830,563
State of Kuwait	3,501,828	2,209,377	3,451,575	1,797,923
United Arab Emirates	1,537,297	1,801,744	1,537,297	1,865,973
State of Qatar	-	-	1,018,740	1,667,530
<b>Total</b>	<b>21,803,075</b>	<b>18,982,931</b>	<b>23,167,943</b>	<b>20,161,989</b>

GCC Equity Fund (Managed by Alawal Invest Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2017

**5 TRADING INCOME, NET**

	2017 SR	2016 SR
Dividend income	<b>732,247</b>	686,387
Realised gain (loss)	<b>550,460</b>	(1,644,291)
Unrealised gains	<b>196,632</b>	2,704,138
<b>Total</b>	<b>1,479,339</b>	1,746,234

**6 OTHER EXPENSES**

	2017 SR	2016 SR
Audit fees	<b>30,000</b>	30,000
Standard & Poor's benchmark fees	<b>12,750</b>	15,000
Brokerage	<b>9,638</b>	19,832
CMA monitoring fees	<b>7,500</b>	7,500
Board member fees	<b>5,212</b>	5,938
Tadawul fees	<b>5,000</b>	5,000
<b>Total</b>	<b>70,100</b>	83,270

**7 TRANSACTIONS WITH RELATED PARTIES**

The Fund is managed and administered by the Fund Manager. For these services 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.

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 acts as the custodian to the Fund's investment.

All related party balances and transactions are disclosed in the financial statements and related note disclosures.

The Unitholders' account at 31 December included units held as follows:

	2017 Units	2016 Units
Held by the Bank	<b>1,000,000</b>	1,000,000
Held by employees of the Bank	<b>500</b>	500
<b>Total</b>	<b>1,000,500</b>	1,000,500

## GCC Equity Fund (Managed by Alawwal Invest Company)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2017

#### 8 RISK MANAGEMENT

##### *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 is exposed to credit risk on its bank balance. The Fund Manager seeks to limit its credit risk by monitoring credit exposure and by dealing with reputed counterparties.

The table below shows the maximum exposure to credit risk for the component of the balance sheet.

	2017 SR	2016 SR
Bank balance	7,443,733	7,685,994
<i>Total exposure to credit risk</i>	<u>7,443,733</u>	<u>7,685,994</u>

##### *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.

##### *Liquidity risk*

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities.

The Fund's terms and conditions provide for the subscriptions and redemptions of units throughout the week and it is, therefore, exposed to the liquidity risk of meeting unitholders 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 GCC 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.

##### *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Fund views the Saudi Riyal as its functional currency.

The Fund is subject to fluctuations in foreign exchange rates in the normal course of its business. The Fund Manager monitors the effect of reasonably possible movements of the Saudi Riyal currency rate against the United Arab Emirates Dirham, Kuwaiti Dinar, US Dollar, Bahraini Dinar, Qatari Riyal and Omani Rial, with all other variables held constant, on the income statement of operations (due to the fair value of currency sensitive monetary assets and liabilities).

#### 9 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. The Fund's financial assets consist of bank balance, receivables & advances and investments. The Fund's financial liability consist of accrued expenses.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

Trading investments are carried at fair value. As per the Fund Manager's estimate, the fair value of other financial instruments approximates the carrying value on account of the short term nature of these assets.

#### 10 LAST VALUATION DAY

The last valuation day of the year was 31 December 2017 (2016: 31 December 2016)