

**Saudi Equity Fund  
(Managed by Alawwal Invest Company)**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2018**



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## **INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS' OF SAUDI EQUITY FUND (Managed by Alawwal Invest Company)**

### **Opinion**

We have audited the financial statements of Saudi Equity Fund (the "Fund") managed by Alawwal Invest Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2018, 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 2018, 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 SAUDI 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

  
Waleed G. Tawfiq  
Certified Public Accountant  
License No. (437)



Riyadh: 25 Rajab 1440H  
(1 April 2019)

Saudi Equity Fund  
(Managed by Alawwal Invest Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	31 December 2018 SR	31 December 2017 (note 15) SR	1 January 2017 (note 15) SR
<b>ASSETS</b>				
Cash and cash equivalents		<b>11,099,483</b>	8,599,301	17,501,290
Investments designated at fair value through profit or loss	8	<b>42,375,845</b>	44,252,923	37,084,123
Receivables and advances		<b>26,550</b>	15,000	-
<b>TOTAL ASSETS</b>		<b>53,501,878</b>	52,867,224	54,585,413
<b>LIABILITY</b>				
Accrued expenses		<b>153,620</b>	2,824	72,156
<b>EQUITY</b>				
Net assets attributable to the redeemable unitholders		<b>53,348,258</b>	52,864,400	54,513,257
Units in issue		<b>7,291,919</b>	7,757,439	8,013,673
Net assets value attributable to each unit		<b>7.3161</b>	6.8147	6.8025

The accompanying notes 1 to 17 form an integral part of these financial statements.

Saudi Equity Fund  
(Managed by Alawwal Invest Company)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 SR	2017 (note 15) SR
<b>INCOME</b>			
Net gain (loss) from investments designated at fair value through profit or loss	9	<b>3,100,174</b>	(309,407)
Dividend income		<b>1,898,553</b>	1,458,088
Special commission income		-	10
		<u><b>4,998,727</b></u>	<u>1,148,691</u>
<b>EXPENSES</b>			
Management fees	12	<b>(1,047,708)</b>	(1,013,265)
Other expenses	11	<b>(138,731)</b>	(110,824)
		<u><b>(1,186,439)</b></u>	<u>(1,124,089)</u>
<b>PROFIT FOR THE YEAR</b>		<b>3,812,288</b>	24,602
Other comprehensive Income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u><b>3,812,288</b></u>	<u>24,602</u>

The accompanying notes 1 to 17 form an integral part of these financial statements.



Saudi Equity Fund  
(Managed by Alawwal Invest Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 SR	2017 SR
<b>OPERATING ACTIVITIES</b>			
Profit for the year		<b>3,812,288</b>	24,602
Adjustments to reconcile profit for the year to net cash flows:			
Unrealized (gain) loss on investments designated at fair value through profit or loss	9	<b>(6,774,834)</b>	1,040,492
		<b>(2,962,546)</b>	1,065,094
Working capital adjustments:			
Decrease (increase) in investments at fair value through profit or loss		<b>8,651,912</b>	(8,209,292)
Increase in receivables and advances		<b>(11,550)</b>	(15,000)
Increase (decrease) in accrued expenses		<b>150,796</b>	(69,332)
Net cash flows from/(used) in operating activities		<b>5,828,612</b>	(7,228,530)
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuances of units		<b>4,816,500</b>	1,000,000
Payment on redemption of units		<b>(8,144,930)</b>	(2,673,459)
Net cash flows used in financing activities		<b>(3,328,430)</b>	(1,673,459)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>2,500,182</b>	(8,901,989)
Cash and cash equivalents at the beginning of the year		<b>8,599,301</b>	17,501,290
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>11,099,483</b>	8,599,301

The accompanying notes 1 to 17 form an integral part of these financial statements.

Saudi Equity Fund  
(Managed by Alawwal Invest Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	2018 SR	2017 SR
<b>NET ASSETS ATTRIBUTABLE TO THE REDEEMABLE UNITHOLDERS (EQUITY) AT THE BEGINNING OF THE YEAR</b>	<b>52,864,400</b>	54,513,257
Total comprehensive income for the year	<b>3,812,288</b>	24,602
	<b>56,676,688</b>	54,537,859
<b>CONTRIBUTIONS AND REDEMPTIONS BY THE REDEEMABLE UNITHOLDERS:</b>		
Issuance of units during the year	<b>4,816,500</b>	1,000,000
Redemptions of units during the year	<b>(8,144,930)</b>	(2,673,459)
Net redemptions by the Unitholders	<b>(3,328,430)</b>	(1,673,459)
<b>NET ASSETS ATTRIBUTABLE TO THE REDEEMABLE UNITHOLDERS (EQUITY) AT THE END OF THE YEAR</b>	<b>53,348,258</b>	52,864,400

**UNIT TRANSACTIONS**

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

	2018 Units	2017 Units
<b>UNITS AT THE BEGINNING OF THE YEAR</b>	<b>7,757,439</b>	8,013,673
Units issued during the year	<b>650,514</b>	146,998
Units redeemed during the year	<b>(1,116,034)</b>	(403,232)
<b>NET DECREASE IN UNITS</b>	<b>(465,520)</b>	(256,234)
<b>UNITS AT THE END OF THE YEAR</b>	<b>7,291,919</b>	7,757,439

The accompanying notes 1 to 17 form an integral part of these financial statements.

# Saudi Equity Fund (Managed by Alawwal Invest Company)

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

### 1. GENERAL

Saudi 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 Alawwal Bank (the “Bank”) and investors in the Fund (the “Unitholders”).

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

Saudi Equity Fund	
Commencement Date	30 November 2005
Latest Governing Terms and Condition Date	24 July 2018
Latest Governing Information Memorandum Date	24 July 2018
Category	Conventional
Objective	Long-term capital appreciation
Allowed Investment Channels	Saudi equity markets
	Money Market 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 financial statements have been prepared 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 Saudi Organization of Certified Public Accountants (“IFRS as endorsed in KSA”). These financial statements for the year ended 31 December 2018 are the first financial statements of the Fund prepared in accordance with IFRS as endorsed in KSA and IFRS 1 “First-time Adoption” of International Financial Reporting Standards as endorsed in KSA 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 GAAP”). Refer to note 15 for information on how the Fund’s financial statements are impacted upon the adoption of IFRS as endorsed in KSA.

These 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 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 13.

### 4. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Saudi Riyals (“SR”), which is also 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.



# Saudi Equity Fund

## (Managed by Alawwal Invest Company)

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### NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

#### 5. 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.

##### 5.1. 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.

# Saudi Equity Fund

## (Managed by Alawwal Invest Company)

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### NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

#### 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 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.

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

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### NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

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

##### 5.1. Financial instruments (continued)

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

The Fund holds only trade receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under IFRS 9 to all its trade receivables. Therefore, the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Fund's approach to ECLs reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Fund uses the provision matrix as a practical expedient to measure ECLs on trade receivables, based on days past due for groupings of receivables with similar loss patterns. Receivables are grouped based on their nature. The provision matrix is based on historical observed loss rates over the expected life of the receivables and is adjusted for forward-looking estimates.

Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If a previous write-off is later recovered, the recovery is credited to the credit loss expense.

Interest revenue on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

###### **(vii) 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.

##### 5.2. 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.

##### 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.

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

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### NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

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

##### 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 statement of comprehensive income on the purchase, issuance or cancellation of the Fund's own equity instruments.

##### 5.5. 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.

##### 5.6. 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 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 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).

##### 5.7. Fee and other expenses

Fee and other expenses are recognized on an accrual basis.

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

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### NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

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

##### 5.8. 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.

##### 5.9. 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.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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.

#### 6. USE OF JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRS as endorsed in KSA 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 statement of financial position date. Fair values of those financial instruments are disclosed in note 10.

Saudi Equity Fund  
(Managed by Alawwal Invest Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

7. 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 financial statements. The Fund has not yet undertaken an assessment to determine the potential impact on the amounts reported and disclosures to be made under the new standards. The Fund intends to adopt these standards on their respective mandatory effective dates, if applicable. The following is a summary of new and revised IFRSs that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely
Amendments to IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:	1 January 2019
<ul style="list-style-type: none"> <li>• whether tax treatments should be considered collectively;</li> <li>• assumptions for taxation authorities' examinations;</li> <li>• the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and</li> <li>• the effects of changes in facts and circumstances</li> </ul>	
IFRS 16 Leases IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
Amendments to IAS 28 Investment in Associates and Joint Ventures relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2021
IFRS 17 Insurance Contracts IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2022.	1 January 2022

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31 December 2018

8. INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	31 December 2018				31 December 2017				1 January 2017			
	% of Value	Cost SR	Market value SR	Unrealized gain (loss) SR	% of Value	Cost SR	Market value SR	Unrealized gain (loss) SR	% of Value	Cost SR	Market value SR	Unrealized gain (loss) SR
<i>Equities</i>												
Banks	48.00	17,872,560	20,220,825	2,348,265	38.00	19,324,555	16,863,302	(2,461,253)	30.41	15,106,392	11,277,248	(3,829,144)
Materials	22.00	9,962,184	9,272,905	(689,279)	22.00	12,134,300	9,678,747	(2,455,553)	23.80	10,487,041	8,823,284	(1,663,757)
Telecommunication Services	7.00	2,841,870	3,158,560	316,690	5.00	2,407,306	2,108,485	(298,821)	5.43	1,966,509	2,014,811	48,302
Consumer Services	6.00	2,385,645	2,585,100	199,455	3.00	1,658,740	1,465,960	(192,780)	4.08	1,306,761	1,512,773	206,012
Food & Beverages	4.00	1,872,556	1,511,200	(361,356)	4.00	1,577,754	1,619,090	41,336	6.65	2,302,203	2,467,227	165,024
Health Care Equipment & Svc	3.00	1,987,158	1,356,590	(630,568)	3.00	1,433,320	1,442,180	8,860	4.37	1,320,595	1,621,192	300,597
Real Estate Mgmt & Dev't	2.00	745,519	636,800	(108,719)	2.00	745,519	786,400	40,881	2.33	717,736	864,160	146,424
Commercial & Professional Svc	2.00	938,273	810,000	(128,273)	4.00	2,078,276	1,776,873	(301,403)	3.38	1,298,988	1,253,030	(45,958)
Utilities	2.00	1,256,523	923,540	(332,983)	-	-	-	-	-	-	-	-
Transportation	2.00	1,194,303	787,950	(406,353)	3.00	1,405,063	1,179,300	(225,763)	2.81	963,455	1,042,300	78,845
Capital goods	1.00	581,750	491,400	(90,350)	2.00	929,826	957,600	27,774	-	-	-	-
Retailing	1.00	686,235	620,975	(65,260)	1.00	389,985	343,520	(46,465)	3.16	1,271,539	1,172,038	(99,501)
Energy	-	-	-	-	9.00	4,437,641	4,155,360	(282,281)	3.51	1,114,434	1,301,100	186,666
Insurance	-	-	-	-	2.00	761,976	704,360	(57,616)	-	-	-	-
Food & Staples Retailing	-	-	-	-	1.00	905,818	643,843	(261,975)	2.36	905,818	876,670	(29,148)
Consumer Durables & Apparel	-	-	-	-	1.00	786,409	527,903	(258,506)	7.71	4,005,725	2,858,290	(1,147,435)
	<b>100.00</b>	<b>42,324,576</b>	<b>42,375,845</b>	<b>51,269</b>	<b>100.00</b>	<b>50,976,488</b>	<b>44,252,923</b>	<b>(6,723,565)</b>	<b>100.00</b>	<b>42,767,196</b>	<b>37,084,123</b>	<b>(5,683,073)</b>

All the investment of this Fund are made in Kingdom of Saudi Arabia.



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31 December 2018

9. NET GAIN (LOSS) FROM INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 SR	2017 SR
Realised (loss) gain	<b>(3,674,660)</b>	731,085
Unrealised gain (loss)	<b>6,774,834</b>	(1,040,492)
	<b><u>3,100,174</u></b>	<b><u>(309,407)</u></b>

10. FAIR VALUES OF FINANCIAL INSTRUMENTS

All assets and liabilities for which fair value is measured or disclosed in the 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:

	31 December 2018			
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Investments at FVPL	<b>42,375,845</b>	-	-	<b>42,375,845</b>
<b>Total</b>	<b><u>42,375,845</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>42,375,845</u></b>

	31 December 2017			
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Investments at FVPL	44,252,923	-	-	44,252,923
<b>Total</b>	<b><u>44,252,923</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>44,252,923</u></b>

	1 January 2017			
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Investments at FVPL	37,084,123	-	-	37,084,123
<b>Total</b>	<b><u>37,084,123</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>37,084,123</u></b>

Saudi Equity Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

10. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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 year, there was no transfer in fair value hierarchy for the financial assets held at fair value through profit or loss.

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

11. OTHER EXPENSES

	2018 SR	2017 SR
Value Added Tax	<b>55,561</b>	-
Audit fees	<b>30,000</b>	30,000
Brokerage	<b>19,653</b>	50,363
Standard & Poor's benchmark fees	<b>12,750</b>	12,750
CMA monitoring fees	<b>7,500</b>	7,500
Tadawul fees	<b>5,000</b>	5,000
Board member fees (note 12)	<b>4,267</b>	5,211
Custody fee	<b>4,000</b>	-
	<b>138,731</b>	110,824

12. 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 1,047,708 (2017: SR 1,013,265).

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 Riyadh 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 Nil during the year 31 December 2018 (2017: SR 5,211), the fees payable to directors at the year-end were SR 4,267 (31 December 2017: SR Nil).

**Saudi Equity Fund**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2018

12. TRANSACTIONS WITH RELATED PARTIES (continued)

*Units held by related parties*

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

Related parties and nature of relationship	Nature of transaction	31 December 2018 Units	31 December 2017 Units	1 January 2017 Units
Held by the Bank	Units held	<b>2,000,000</b>	2,000,000	2,000,000
Other funds managed by the Fund Manager	Units held	-	357,828	210,830
Employees of the Bank	Units held	<b>20,476</b>	39,927	50,194
		<b><u>2,020,476</u></b>	<b><u>2,397,755</u></b>	<b><u>2,261,024</u></b>

13. 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 31 December 2018	Within 12 months SR	After 12 months SR	Total SR
<b>ASSETS</b>			
Cash and cash equivalents	<b>11,099,483</b>	-	<b>11,099,483</b>
Investments designated at fair value through profit or loss	<b>42,375,845</b>	-	<b>42,375,845</b>
Receivables and advances	<b>26,550</b>	-	<b>26,550</b>
<b>TOTAL ASSETS</b>	<b><u>53,501,878</u></b>	<b><u>-</u></b>	<b><u>53,501,878</u></b>
<b>LIABILITY</b>			
Accrued expenses	<b>153,620</b>	-	<b>153,620</b>
<b>TOTAL LIABILITY</b>	<b><u>153,620</u></b>	<b><u>-</u></b>	<b><u>153,620</u></b>
As at 31 December 2017	Within 12 months SR	After 12 months SR	Total SR
<b>ASSETS</b>			
Cash and cash equivalents	8,599,301	-	8,599,301
Investments designated at fair value through profit or loss	44,252,923	-	44,252,923
Receivables and advances	15,000	-	15,000
<b>TOTAL ASSETS</b>	<b><u>52,867,224</u></b>	<b><u>-</u></b>	<b><u>52,867,224</u></b>
<b>LIABILITY</b>			
Accrued expenses	2,824	-	2,824
<b>TOTAL LIABILITY</b>	<b><u>2,824</u></b>	<b><u>-</u></b>	<b><u>2,824</u></b>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

13. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

As at 1 January 2017	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
<b>ASSETS</b>			
Cash and cash equivalents	17,501,290	-	17,501,290
Investments at fair value through profit or loss	37,084,123	-	37,084,123
<b>TOTAL ASSETS</b>	<u>54,585,413</u>	<u>-</u>	<u>54,585,413</u>
<b>LIABILITY</b>			
Accrued expenses	72,156	-	72,156
<b>TOTAL LIABILITY</b>	<u>72,156</u>	<u>-</u>	<u>72,156</u>

14. 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 composition 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.

Saudi Equity Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

14. 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.

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Cash and cash equivalents	<b>11,099,483</b>	8,599,301	17,501,290
<b>Total exposure to credit risk</b>	<b>11,099,483</b>	8,599,301	17,501,290

*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 industry concentration.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

14. FINANCIAL RISK MANAGEMENT (continued)

*Equity price risk (continued)*

*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.

	2018		2017	
		SR		SR
<i>Net gain (loss) on investments held at FVPL</i>	+ 5%	<b>155,009</b>	+ 5%	15,470
	- 5%	<b>(155,009)</b>	- 5%	(15,470)

*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 is not subject to fluctuations in foreign exchange rates as it ordinary transact in Saudi Riyal.

15. FIRST-TIME ADOPTION OF IFRS AS ENDORSED IN KSA

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

Accordingly, the Fund has applied the IFRS as endorsed in KSA for the preparation of its financial statements for the year beginning 1 January 2018, as well as for presenting the relevant comparative year data. In compliance with the requirements of IFRS 1 as endorsed in KSA, the Fund's opening statement of financial position was prepared as at 1 January 2017 to reflect the transition to IFRS as endorsed in KSA from the previous GAAP i.e. accounting standards generally accepted in the Kingdom of Saudi Arabia ("SOCPA GAAP"). The Fund analysed the impact on the statement of financial positions as at 1 January 2017 and 31 December 2017 and also the statement of comprehensive income for the year ended 31 December 2017, and no significant adjustments have been identified in transitioning from SOCPA GAAP to IFRS as endorsed in KSA.

Due to the fact there was no significant impact, no separate reconciliation statement has been prepared to reconcile the statement of financial position and comprehensive income as per SOCPA accounting standards and as per IFRS as endorsed in the KSA.

16. LAST VALUATION DAY

The last valuation day of the year was 31 December 2018 (2017: 31 December 2017).

17. APPROVAL OF FINANCIAL STATEMENTS

These financial statements are approved by the Fund Board on 25 Rajab 1440H (Corresponding to 1 April 2019).