

**Riyad USD Diversified Trade Fund
Open-Ended Mutual Fund
(Managed by Riyad Capital)
Financial Statements
For the year ended 31 December 2020
Together with the
Independent Auditor's Report to the unitholders**

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Financial Statements

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INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS
RIYAD USD DIVERSIFIED TRADE FUND
MANAGED BY RIYAD CAPITAL
Riyadh, Kingdom of Saudi Arabia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **RIYAD USD DIVERSIFIED TRADE FUND** ("the Fund"), being managed by Riyadh Capital (the "Fund Manager"), which comprise of the financial position as at 31 December 2020 and the statements of comprehensive income, statement of changes in net assets (Equity) attributable to the unitholders and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements statement present fairly, in all material respects, the Financial Position of the Fund as at 31 December 2020, and it's financial performance and it's 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 endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Unqualified Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Fund's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our opinion.

Responsibilities of Management and Those Charged with Governance 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 endorsed by SOCPA a and the Fund's Terms and Condition 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, Fund 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.

Those charged with governance the Board of Directors, are responsible for overseeing the Fund's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (Continued)

TO THE UNITHOLDERS

RIYAD USD DIVERSIFIED TRADE FUND

MANAGED BY RIYAD CAPITAL

Riyadh, Kingdom of Saudi Arabia

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 audit 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 ISA 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.

As part of an audit in accordance with ISAs 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 audit 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 audit 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 manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT (Continued)

TO THE UNITHOLDERS
RIYAD USD DIVERSIFIED TRADE FUND
MANAGED BY RIYAD CAPITAL

Riyadh, Kingdom of Saudi Arabia

We communicate with those charged with governance 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 and on behalf of
Al Bassam & Co.

Ibrahim A. Al-Bassam
Certified Public Accountant
Registration No. 337



Riyadh, Kingdom of Saudi Arabia

25 Sha'aban 1442
07 April 2021

Riyad USD Diversified Trade Fund
Open-Ended Mutual Fund
(Managed by Riyadh Capital)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

(Amounts in United States Dollar)

| | Notes | 31 December 2020 | 31 December 2019 |
|---|-------|---------------------|---------------------|
| ASSETS | | | |
| Cash balance | 6,10 | 2,403,862 | 7,843,611 |
| Investments carried at amortized cost | 7 | 223,205,870 | 43,316,054 |
| Accrued special commission income | | 1,645,366 | 459,891 |
| Total assets | | 227,255,098 | 51,619,556 |
| LIABILITIES | | | |
| Management fees payable | 10 | 221,049 | 57,201 |
| Accrued expenses | | 39,077 | 6,772 |
| Redemption payable | | - | 2,399,616 |
| Total liabilities | | 260,126 | 2,463,589 |
| Net assets (equity) attributable to the Unit holders | | 226,994,972 | 49,155,967 |
| Units in issue (number) | 8 | 8,422,837.93 | 1,862,817.78 |
| Net assets (equity) attributable to each unit | | 26.95 | 26.39 |

Riyad USD Diversified Trade Fund
Open-Ended Mutual Fund
(Managed by Riyad Capital)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

(Amount in United States Dollar)

| | Notes | 2020 | 2019 |
|--|-------|------------------|------------------|
| <u>Investment Income</u> | | | |
| Realized gain on investments carried at FVPL | | - | 78,793 |
| Special commission income | | <u>3,278,256</u> | <u>1,006,559</u> |
| | | <u>3,278,256</u> | <u>1,085,352</u> |
| <u>Expenses</u> | | | |
| Management fees | 10 | (650,597) | (156,767) |
| Other expenses | 9 | <u>(79,194)</u> | <u>(12,257)</u> |
| | | <u>(729,791)</u> | <u>(169,024)</u> |
| Net income for the year | | <u>2,548,465</u> | <u>916,328</u> |
| Other comprehensive income for the year | | - | - |
| Total Comprehensive income for the year | | <u>2,548,465</u> | <u>916,328</u> |

Riyad USD Diversified Trade Fund
Open-Ended Mutual Fund
(Managed by Riyadh Capital)

STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNIT HOLDERS

For the year ended 31 December 2020
(Amount in United States Dollar)

| | 2020 | 2019 |
|--|----------------------|--------------|
| Net assets (equity) attributable to the Unit holders at beginning of the year | 49,155,964 | 22,899,430 |
| Total comprehensive income for the year | 2,548,465 | 916,326 |
| contributions and redemptions by the unitholders | | |
| Issuance of units | 281,814,865 | 54,244,107 |
| Redemption of units | (106,524,322) | (28,903,899) |
| Net changes from unit transactions | 175,290,543 | 25,340,208 |
| Net assets (equity) attributable to the Unit holders at end of the year | 226,994,972 | 49,155,964 |

Riyad USD Diversified Trade Fund
Open-Ended Mutual Fund
(Managed by Riyad Capital)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

(Amount in United States Dollar)

| | Notes | 2020 | 2019 |
|---|-------|----------------------|--------------|
| Cash flows from operating activities: | | | |
| Net income for the year | | 2,548,465 | 916,328 |
| Net changes in operating assets and liabilities: | | | |
| Investments carried at FVPL | | - | 5,143,037 |
| Investments carried at amortized cost | | (164,389,819) | (31,316,054) |
| Accrued special commission income | | (1,185,475) | (427,102) |
| Management fees payable | | 163,848 | 35,828 |
| Accrued expenses | | 32,305 | 1,779 |
| Net cash used in operating activities | | (162,830,676) | (25,646,184) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of units | | 281,814,865 | 54,244,107 |
| Redemptions of the units, net off payable* | | (108,923,938) | (26,504,282) |
| Net cash from financing activities | | 172,890,927 | 27,739,825 |
| Net increase in cash and cash equivalents | | 10,060,251 | 2,093,641 |
| Cash and cash equivalents at beginning of the year | | 14,843,611 | 12,749,970 |
| Cash and cash equivalents at end of the year | 6 | 24,903,862 | 14,843,611 |
| *Supplementary Information | | | |
| Payable to unitholders on account of redemption | | 2,399,616 | (2,399,616) |

Riyad USD Diversified Trade Fund
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(Managed by Riyadh Capital)

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for the year ended 31 December 2020
(Amounts in United States Dollar)

1 FUND AND ITS ACTIVITIES

Riyad USD Diversified Trade Fund (the “Fund”) is a fixed income fund managed through an agreement between Riyadh Capital (the “Fund Manager”) and the Fund Investors (the “Unitholders”). The objective of the Fund is to seek preservation of capital and realize a reasonable return thereon, through invest direct or indirect in debt instruments compliant with sharea.

In dealing with the Unitholders, the Fund Manager considers the Fund as an independent accounting unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund.

The management of the Fund is the responsibility of the Fund Manager. However, in accordance with the Fund’s Agreement, the Fund Manager can delegate or assign its duties to one or more of the financial institutions in the Kingdom of Saudi Arabia and overseas.

Capital Market Authority (“CMA”) approval for the establishment of the Fund was granted in its letter dated Rabi Thanni 4, 1409 H (corresponding to 20 November 1988). The Fund commenced its operations on 18 June 1988.

2 REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) issued by (“CMA”) on 3 Dhul Hijja 1427 H (corresponding to 24 December 2006) which was amended on 16 Shaban 1437 (corresponding to 23 May 2016) detailing requirements for all funds within the Kingdom of Saudi Arabia.

3 BASIS OF PREPARATION

3.1 Statement of compliance

These financial statements have been prepared in accordance with International financial Reporting Standards (IFRS) that are as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

3.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, using accrual basis of accounting except for the investments measured at fair value through profit or loss at fair value. The fund presents its statement of financial position in the order of liquidity.

3.3 Functional and Presentation Currency

Items included in the financial statements are measured using the currency of the main economic environment in which the fund operates (the "functional currency") and are expressed in United States Dollar (USD), which is fund functional and operational currency and all financial information presented is rounded to the nearest USD.

3.4 Critical accounting judgments, estimates and assumption

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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(Amounts in United States Dollar)

3 BASIS OF PREPARATION (CONTINUED)

3.4 Critical accounting judgments, estimates and assumption (continued)

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period, are described below. The Fund based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Fund. Such changes are reflected in the assumptions when they occur.

Going Concern

The Fund Manager of the Fund has 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 on the Fund's ability to continue as a going concern.

Expected credit loss

In the preparation of the financial statements, management has made certain additional assumptions in the measurement of Expected Credit Loss (ECL). However, in view of the current uncertainty due to COVID-19, any future change in the assumptions and key estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

A number of significant judgments are also required in applying the accounting requirements for measuring expected credit loss (ECL), such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purposes of measuring ECL.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 New standards, interpretations and amendments

The accounting policies used in the preparation of these financial statements are consistent with those used and disclosed in the annual financial statements of the Fund for the year ended 31 December 2019. There are new standards, amendments and interpretations apply for the first time in 2020, but do not have an impact on the financial statements of the Fund.

There are other 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 Fund's Board, these will have no significant impact on the financial statements of the Fund. The Fund intends to adopt those amendments and interpretations, if applicable.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 New standards, interpretations and amendments (continued)

4.1.1 New standards, amendments to standards and interpretations

Amendments

A number of new amendments to standards, enlisted below, are effective this year but they do not have a material effect on the Company's Financial Statements, except for where referenced below.

New amendments to standards issued and applied effective January 1, 2020

| Amendments to standard | Description | Effective for annual years beginning on or after | Summary of the amendment |
|--|--|---|---|
| IAS 1 and IAS 8 | Definition of material | January 1, 2020 | The amendments provided a new definition of material and clarified that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. |
| IFRS 3 | Definition of business | January 1, 2020 | The amendment clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. |
| Revised Conceptual Framework for Financial Reporting | Amendments to references Conceptual Framework in IFRS Standards and updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. | January 1, 2020 | The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. |

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 New standards, interpretations and amendments (continued)

4.1.2 New standards, amendments and revised IFRS issued but not yet effective

The Fund has not applied the following new and revised IFRSs and amendments to IFRS that have been issued but are not yet effective.

| Amendments to standard | Description | Effective for annual years beginning on or after | Summary of the amendment |
|--|---|--|--|
| IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform – Phase 2 | January 1, 2021 | These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9. |
| IAS 37 | Onerous Contracts Cost of Fulfilling Contract | January 1, 2022 | The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. |
| IFRS 16, IFRS 9, IAS 41 and IFRS 1 | Annual Improvements to IFRS Standards 2018–2020 | January 1, 2022 | IFRS 16: The amendment removes the illustration of the reimbursement of leasehold improvements IFRS 9: The amendment clarifies that in applying the ‘10 per cent’ test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender. The amendment is to be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. IAS 41: The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. IFRS 1: The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation difference. |

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 New standards, interpretations and amendments (continued)

4.1.2 New standards, amendments and revised IFRS issued but not yet effective (continued)

The Fund has not applied the following new and revised IFRSs and amendments to IFRS that have been issued but are not yet effective.

| Amendments to standard | Description | Effective for annual years beginning on or after | Summary of the amendment |
|---------------------------------|---|--|---|
| IFRS 3 | Reference to the Conceptual Framework | January 1, 2022 | The amendment as a whole updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. |
| IAS 1 | Classification of Liabilities as Current or Non-current | January 1, 2023 | The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of a liability would not impact its classification |
| Amendment to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | N/A | The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary. |

Management anticipates that these new standards interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these interpretations and amendments may have no material impact on the financial statements of the Fund in the period of initial application.

4.2 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalent consists cash in investments account and murabaha deposits with an original maturity of less than three months at the date of acquisition. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

4.3 Financial instruments

4.3.1 Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income. Immediately after initial

recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost, as described in Note 3.4, which results in an accounting loss being recognized in the statement of comprehensive income when an asset is newly originated.

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Notes to the financial statements
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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3.2 Classification and measurement of financial assets

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual profit in the issuer's net assets.

The Fund classifies its financial assets at fair value through profit or loss (FVPL). The Fund subsequently measures all equity investments at fair value through profit or loss, except where the Fund Manager has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Fund's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to trade.

When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to the statement of comprehensive income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in the statement of comprehensive income when the Fund's right to receive payments is established.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as Murabaha contracts and Sukuks.

Classification and subsequent measurement of debt instruments depend on:

- The Fund's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on these factors, the Fund classifies its debt instruments into one of the following three measurement categories:

Based on these factors, the Fund classifies its debt instruments into one of the following three measurement categories:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit (SPPP), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 3.3. Profit earned from these financial assets is recognized in the statement of comprehensive income using the effective commission rate method.

Fair value through profit or loss (FVPL): If debt instrument's cash flows do not represent solely SPPP or if it not held within the held to collect or the held to collect and sell business model, or if it is designated at FVPL, then it is measured at FVPL. A gain or loss on a debt investment measured at FVPL is recognized in the statement of comprehensive income, within "Net gain / (loss) in investments mandatorily measured at FVPL", in the period in which it arises. A gain or loss from debt instruments that were designated at fair value or which are not held for trading are presented separately from debt investments that are mandatorily measured at fair value through profit or loss, within "Net gain / (loss) in investments designated at FVPL". Commission income earned from these financial assets is recognized in the statement of comprehensive using the effective commission rate method.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3.2 Classification and measurement of financial assets (continued)

Business model: The business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Fund in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is internally evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVPL.

SPPP: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Fund assesses whether the financial instruments' cash flows represent solely payment of principal and profit (the "SPPP" test). In making this assessment, the Fund considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. profit includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Fund reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

4.3.3 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

4.3.4 Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized 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 recognized to the extent of the Fund's continuing involvement in the asset. In that case, the Fund also recognized 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 recognized a financial liability when the obligation under the liability is discharged, cancelled or expired.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3.5 Financial liabilities

The Fund classifies its financial liabilities at amortized cost unless it has designated liabilities at FVPL. The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

4.4 Trade date accounting

A 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 purchase or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the marketplace.

4.5 Offsetting of financial instruments

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

4.6 Accrued expenses

Accrued expenses are recognized initially at fair value and subsequently measured at amortized cost using the effective profit rate method.

4.7 Provision

A provision is recognized when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provision is not recognized for future operating loss.

4.8 Redeemable units

The Fund is open for subscriptions/ redemptions of units on every Sunday to Thursday. The net assets value of the Fund is determined every Sunday to Thursday (each a "Valuation Day"). The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the value of net assets (fair value of Fund assets *minus* Fund liabilities) by the total number of outstanding units on the relevant Valuation Day.

The Fund classifies its redeemable units as an equity instrument if the redeemable units have all of the following features:

- It entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation.
- The instrument is in the class of instruments that is subordinate to all other classes of instruments.
- All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.
- The instrument does not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata shares of the Fund's net assets.
- The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund over the life of the instrument.

The subscription and redemption of redeemable units are accounted for as equity transactions as long as units are classified as equity.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Zakat / Taxation

Taxation/zakat is the obligation of the unitholders and therefore, no provision for such liability is made in these financial statements.

4.10 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, taxes and rebates.

4.11 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 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 period's unrealised gains and losses for financial instruments which were realised in the reporting period. Realised gains and losses on disposals of financial instruments classified as at FVPL are calculated using the weighted average cost method. They represent the difference between an instrument's initial

carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments)

4.12 Dividend income

Dividend income, if any is recognized in the statement of comprehensive income on the date on which the right to receive the payment for dividend is established. For quoted equity securities, this is usually the ex-dividend date. Dividend income from equity securities designated as at FVTPL, is recognized in the statement of comprehensive income in a separate line item

4.13 Management fees

Management fee is calculated at rate mentioned in terms and conditions of the Fund and is payable quarterly in arrears.

4.14 Other expenses

Other expenses are charged at rates / amounts within limits mentioned in terms and conditions of the Equity Fund.

4.15 Net asset value per unit

The net asset 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

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5 MANAGEMENT FEE, ADMINISTRATION AND OTHER CHARGES

On each Valuation day, the Fund Manager charges the Fund, a management fee at the rate of .50% per annum of the Fund's net asset value. The Fund Manager also recovers from the Fund any other expenses incurred on behalf of the Fund such as audit and legal fees, board compensation and other similar charges. These charges are not expected to exceed in total 0.2 percent per annum of the Fund's net assets value.

In addition, on daily basis the Fund Manager charges the Fund, custody fees at the rate of 0.005% per annum of the Fund's net asset value and \$8 per transaction.

6 CASH AND CASH EQUIVALENTS

| | Notes | 31 December 2020 | 31 December 2019 |
|---|--------------|-----------------------------|-----------------------------|
| Cash balance | 6-1,10 | 2,403,862 | 7,843,611 |
| Time deposits having maturity of three month or less from the date of acquisition | 7 | 22,500,000 | 7,000,000 |
| Cash and cash equivalent in statement of cash flow | | 24,903,862 | 14,843,611 |

6.1 Cash in investment account are held in investment account with Riyad Capital, a related party (Also see Note 1). The Fund does not earn profit on these investment accounts.

7 INVESTMENTS CARRIED AT AMORTIZED COST

| | Notes | 31 December 2020 | 31 December 2019 |
|------------------------------------|--------------|-----------------------------|-----------------------------|
| Investments in Murabaha Placements | 7.1 | 192,600,000 | 12,600,000 |
| Investments in Sukuk | | 30,605,870 | 30,716,054 |
| | | 223,205,870 | 43,316,054 |

7.1 Above placement also include placements with original maturity of 3 months or less amounting to 22,500,000 USD (2019: USD 7 M).

7.2 The investments in Sukuk carry a floating commission rate.

7.3 The rate of special commission income for above investment carried at amortized cost ranging from 0.1% to 6% (2019: 1.7% per annum to 5.7% per annum).

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8 UNIT TRANSACTIONS

Transactions in units for the year are summarized as follows:

| | 2020 | 2019 |
|---|---------------------------|----------------|
| | <i>(Units in numbers)</i> | |
| Units at the beginning of the year | 1,862,817.78 | 890,011.15 |
| Units issued during the year | 10,541,141.30 | 2,080,706.64 |
| Units redeemed during the year | (3,981,121.15) | (1,107,900.01) |
| Net change in units | 6,560,020.15 | 972,806.63 |
| Units at the end of the year | 8,422,837.93 | 1,862,817.78 |

9 OTHER EXPENSES

| | 2020 | 2019 |
|----------------|---------------|--------|
| VAT expenses | 73,358 | 7,953 |
| Other expenses | 5,836 | 4,304 |
| | 79,194 | 12,257 |

10 TRANSACTIONS AND BALANCE WITH RELATED PARTY

Related parties of the Fund include “Riyad Capital” being the Fund Manager, Riyadh Bank (being the shareholder of Riyadh Capital), other funds managed by the Fund Manager and Board of Directors

In the ordinary course of its activities, the Fund transacts business with related parties. The related parties’ transactions are governed by limits set by the regulations issued by the CMA. All related party transactions are approved by the Fund’s Board of Directors.

Details of transactions and balances with related parties other than those disclosed elsewhere in the financial statements are as follows:

| Related Party | Nature of transactions | Amount of transaction during the year | | Closing balance Receivable/(Payable) | |
|----------------------|--------------------------------------|--|-----------|---|------------------|
| | | 2020 | 2019 | 31 December 2020 | 31 December 2019 |
| Riyad Bank | Investment carried at amortized cost | 7,500,000 | 9,000,000 | - | - |
| | Special commission income | 219 | 5,263 | - | - |
| Riyad Capital | Fund management fee | (650,597) | (156,767) | (221,049) | (57,201) |
| | Accrued VAT* | (72,886) | (7,953) | (33,157) | (2,951) |
| | Investment Account | - | - | 2,403,862 | 7,843,611 |

*Accrued VAT to related party is included in the financial position under Accrued expenses.

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11 FINANCIAL INSTRUMENTS BY CATEGORY

| 31 December 2020 | Amortized cost | FVPL |
|--|-----------------------|-------------|
| Assets as per statement of financial position | | |
| Cash balance | 2,403,862 | - |
| Investments measured at amortized cost | 223,205,870 | - |
| Accrued special commission income | 1,645,366 | - |
| Total | 227,255,098 | - |

| 31 December 2019 | Amortized cost | FVPL |
|--|-----------------------|-------------|
| Assets as per statement of financial position | | |
| Cash balance | 7,843,611 | - |
| Investments measured at amortized cost | 43,316,054 | - |
| Accrued special commission income | 459,891 | - |
| Total | 51,619,556 | - |

All financial liabilities as at 31 December 2020, (31 December 2019) were classified as financial liabilities measured at amortized cost.

12 FINANCIAL RISK MANAGEMENT

12.1 Financial risk factors

The objective of the Funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its Unit Holders and to ensure reasonable safety to the Unit Holders.

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and operational risk.

The Fund Manager is responsible for identifying and controlling risks. The Fund Board supervises the Fund Manager and is ultimately responsible for the overall management of the Fund.

Monitoring and controlling risks is primarily set up to be performed based on the limits established by the Fund Board. The Fund has its Terms and Conditions document that set out its overall business strategies, its tolerance of risks and its general risk management philosophy and is obliged to take actions to rebalance the portfolio in line with the investment guidelines.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

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12 FINANCIAL RISK MANAGEMENT (CONTINUED)

12.1 Financial risk factors (continued)

(a) Market risk

(i) Price risk

Price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements.

The price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.

The Fund Manager diversifies the investment portfolio and closely monitors the price movement of its investments in financial instruments. As of the statement of financial position date, Fund has equity investments.

(b) 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 for its Investments carried at amortized cost and cash and cash equivalent and receivables. Bank balances are deposited in Riyad Bank which is Bank with good financial rating.

The following table shows the Fund's maximum exposure to credit risk for components of the statement of financial position.

| | <u>31 December 2020</u> | <u>31 December 2019</u> |
|-----------------------------------|--------------------------------|--------------------------------|
| Cash balance | 2,403,862 | 7,843,611 |
| Investment at amortized cost | 223,205,870 | 43,316,054 |
| Accrued special commission income | 1,645,366 | 459,891 |

Amounts arising from ECL

Impairment on financial assets on Cash and cash equivalent, Investments carried at amortized cost and accrued income has been measured on a 12-month expected loss basis. The Fund considers that these exposures have low credit risk based on the external credit ratings of the counterparties. 12-month and lifetime probabilities of default are based on the approved ECL methodology and impairment policy of the Fund. Loss Given Default (LGD) parameters generally reflect an assumed recovery rate which are linked to the composite credit ratings of the counterparties. However, if the asset were credit-impaired, then the estimate of loss would be based on a specific assessment of expected cash shortfalls and on the original effective profit rate.

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12 FINANCIAL RISK MANAGEMENT (CONTINUED)

12.1 Financial risk factors (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund's terms and conditions provide for subscription and redemption of units on every Sunday to Thursday, therefore, exposed to the liquidity risk of meeting unitholder redemptions on these days. The Fund's financial liabilities primarily consist of payables which are expected to be settled within one month from the statement of financial position date.

The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise, either through new subscriptions, liquidation of the investment portfolio or by taking short term loans from the Fund Manager.

The table below summarizes the maturity profile of significant assets and liabilities of the Fund based on expected maturities:

| | 31 December 2020 | | |
|--|-------------------------|-------------------------|--------------------|
| | Less than 1 year | More than 1 year | Total |
| Cash balance | 2,403,862 | - | 2,403,862 |
| Investments measured at amortized cost | 180,600,000 | 42,605,870 | 223,205,870 |
| Accrued special commission income | 1,645,366 | - | 1,645,366 |
| TOTAL ASSETS | 184,649,229 | 42,605,870 | 227,255,098 |
| Management fees payable | 221,049 | - | 221,049 |
| Accrued expenses | 39,077 | - | 39,077 |
| TOTAL LIABILITIES | 260,126 | - | 260,126 |

| | 31 December 2019 | | |
|--|-------------------------|-------------------------|-------------------|
| | Less than 1 year | More than 1 year | Total |
| Cash balance | 7,843,611 | - | 7,843,611 |
| Investments measured at amortized cost | 12,600,000 | 30,716,054 | 43,316,054 |
| Accrued special commission income | 459,891 | - | 459,891 |
| TOTAL ASSETS | 20,903,502 | 30,716,054 | 51,619,556 |
| Management fees payable | 57,201 | - | 57,201 |
| Accrued expenses | 6,772 | - | 6,772 |
| Redemption payable | 2,399,616 | - | 2,399,616 |
| TOTAL LIABILITIES | 2,463,589 | - | 2,463,589 |

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12 FINANCIAL RISK MANAGEMENT (CONTINUED)

12.1 Financial risk factors (continued)

d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally at the Fund's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to unitholders.

(e) Special commission rate risk

Special commission rate risk is the risk that the financial instruments will fluctuate due to changes in the market special commission rates. The Fund is subject to special commission rate risk or future risks on its special commission bearing assets including its investments carried at amortized cost.

The following table demonstrates the sensitivity of the Fund's profit or loss for the year to a reasonably possible change in interest rates, with all other variables held constant. There is no sensitivity effect on other comprehensive income (OCI) as the Fund has no assets designated as fair value through other comprehensive income or hedging instruments. In practice, the actual trading results may differ from the below sensitivity analysis and the difference could be significant.

| Change in profit rate | Impact on Profit or loss | |
|------------------------------|---------------------------------|-------------------------|
| | 31 December 2020 | 31 December 2019 |
| Increase by 1% | 2,232,059 | 433,161 |
| Decrease by 1% | (2,232,059) | (433,161) |

13 LAST VALUATION DAY

The last valuation day of the year was 31 December 2020 (31 December 2019).

14 COMPARATIVE FIGURES

Certain comparative figures for the year ended December 31, 2019 have been reclassified to conform with the presentation for the current year.

15 SUBSEQUENT EVENTS

Dated March 1, 2021, the CMA announced the approval of amendments to the Investment Funds Regulations and Real Estate Investment Funds Regulations and Glossary of Defined Terms Used in the Regulation (the "Amendments") with an effective date of May 1, 2021. As of the date of approval of these financial statements, the Fund Manager is assessing the Amendments' impact on the Fund's financial statements.

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16 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorized for issue by the Fund Board of Directors on 6 April 2021 (corresponding to 24 Sha'ban 1442 H)