

**Annual Report 2020**

**Al Razeen USD Liquidity Fund**

**Fund Manager**  
**Samba Capital & Investment Management Company**  
CR 1010237159,  
CMA Authorization No. 07069-37  
Kingdom Center, Olaya  
P.O. Box 220007, Riyadh 11311  
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## I. Investment Fund Information

- 1) **Fund Name** Al Razeen USD Liquidity Fund
- 2) **Investment Objective, policies and practices**

The Fund focuses on capital appreciation and daily liquidity by investing in short term money market instruments that present minimal credit risks along with investing in sukuk, bonds and structured products.

The fund invests mainly in short term, high quality money market instruments including murabahas, sukuks, bonds and structured products. In selecting investments for the Fund, the fund manager considers factors such as current yield, the anticipated level of interest rates and the maturity of the investments relative to the liquidity profile of the Fund. Main risk factors facing the Fund include but are not limited to credit risk, counterparty risk, interest rate risk, extension risk, reinvestment risk and selection risk.
- 3) **Distribution of income and gain policy** N/A, the Fund does not pay dividends.
- 4) **Please note that the fund's reports are available upon request free of charge.**

## II. Fund Performance

1)

(Amounts in USD)	2018	2019	2020
a) Net Asset Value (31 December)	32,572,038	31,528,836	17,701,441
b) Net Asset Value per Unit (31 December)	26.72	27.21	27.43
c) Highest NAV / Unit	26.73	27.22	27.44
Lowest NAV / Unit	26.32	26.73	27.22
d) Number of Units in Issue (31 December)	1,218,951	1,158,839	645,428
e) Income Distribution per Unit – Gross	N/A	N/A	N/A
Income Distribution per Unit – Net	N/A	N/A	N/A
f) Expense Ratio %	0.07%	0.17%	0.06%

2)

	1 year	3 years	5 years	Since inception
a) Total Return %	0.82	4.30	6.77	174.46

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
b) Annual Total Return % (10 years)	1.14	1.03	0.45	0.21	0.39	1.23	1.09	1.58	1.79	0.82

c) Fees and Expenses	2020 (USD)
Management fees	111,836
Dealing fees	0
Other expenses paid*	10,870
Total expenses	122,706
Total Expense Ratio	0.69%

Note:

\*For detailed table of other expenses paid please refer to the financial disclosures section of the Fund's T&Cs.  
The Fund manager has neither waived nor given any rebate of fees during the year

d) The basis for calculating the performance data and assumptions used are consistently applied.

- 3) There were no material changes that occurred during the period that affected the performance of the fund.
- 4) **Annual voting practices:** Samba Capital, as a representative of the securities owned by Al Razeen USD Liquidity Fund, did not attend any annual general meetings during the year. The voting right policy is available on Samba Capital website.(Website link : [www.sambacapital.com](http://www.sambacapital.com)).

## 5) Fund Board Annual Report

The Fund Board of Al Razeen USD is pleased to present its annual report for the fiscal year ended December 31, 2020.

### Performance Overview:

On the last valuation day the Fund's unit price stood at USD 27.44 as of year ended December 31, 2020 as compared to USD 27.22 as of December 31, 2019. The Fund's return was 0.82% while the benchmark returned 0.52% during 2020.

### Economic and Market Overview

Money Supply (M2) in Saudi Arabia increased by 9.66% while Monetary Base grew by 8.62% during 2020. The return on the 1-month SAMA Bills dropped to 0.58% from 1.81% in the end of previous year. The 1-month SIBOR decreased to 0.66% by end-2020 from 2.09% at the end of the previous year. SAMA lowered the Repo Rate by 125 bps to 1.00% Also the Reverse Repo Rate was lowered over 2020 to reach 0.50%.

### Topics discussed and Resolutions (if any)

The Fund Board has performed its duties and responsibilities as per the Fund's terms and conditions. The Board has held two meetings, which took place on June 29, 2020 and December 15, 2020. Following were the items discussed and decisions that were taken during the fund board meetings held in 2020:

#### Approved resolutions

- Approved the Financial Statements of the Fund, fund interim and annual reports.
- Approved the renewal of material contracts.
- Approved the changes to the terms and conditions of the fund and confirming compliance with Investment Fund Regulations and the Terms and Conditions.
- Approved the renewal of fund's auditor.
- Approved written policy regarding voting rights related to the Fund's Assets.

#### Topics discussed

- Review of SC funds' and Peers' funds' performance, market outlook, Cash level, AUM and asset allocation.
- Review of achievement of Fund objectives, policies and limitations in line with T&Cs in order to ensure that the Fund Manager carries out its obligations in the best interest of the unitholders.
- Related party disclosures.

- The number of funds supervised by the board.
- Updated list of counterparties for bank placements.

#### Other

- Two Separate meetings with the Compliance officer & MLRO of Samba Capital were held where the Board has been updated on the following observations raised by CMA inspection during the years 2019 & 2020. Samba Capital has undertaken the CAPs covering its investment funds as applicable:
  - Custody appointment.
    - The GCC accounts opening is in process by the HSBC custodian and progressing steadily.
    - The required additional docs were signed by SC CEO and sent to HSBC custodian and presented to the Exchange. It remains to open accounts for unitholders from Qatar, as work is being done with Tadawul Qatar to find a legal solution to open accounts.
  - Account Opening Agreement for clients holding units in SC investment Funds (Creation of new serial of investment accounts) (Asked for extension from CMA till Q2/2021)
  - Investment breach in Al-Razeen USD occurred due to client redemption (organic breach).
    - CMA letter addressed to SC Chairman is received which concludes the findings as follows:
      - ✓ Delay in Notifying CMA with Fund's Board Member Resignation - Non-Compliance with Article 38 (h)(1) of the IFR.
      - ✓ Absence of fund limit breach notification to the Authority - Non-Compliance with Article 52 (b) of the IFR
      - ✓ Absence of fund limit breach Notification to Compliance - Non-Compliance with Article 52 (c) of the IFR
      - ✓ Lapse in Unitholders Suitability - Non-Compliance with Article 43 (a) of the APR.
    - The fund manager has provided all the information to the Fund board members to carry out its duties.

### III. Fund Manager

#### 1) Name and address of the Fund Manager:

Samba Capital & Investment Management Company  
Kingdom Center, Olaya  
P.O. Box 220007, Riyadh 11311  
Kingdom of Saudi Arabia

#### 2) Names and addresses of sub-manager and/or investment adviser (if any):

N/A

#### 3) Review of the investment activities during the period:

Al Razeen USD Liquidity Fund (Al Razeen USD) invests in money market instruments, sukuk, bonds and Structured Products. During the year, the fund continued to comply with all relevant applicable laws and regulations. In addition, all internal limits as well as guidelines as per the fund's T&C were adhered to. During the year, Al Razeen USD continued to re-invest at the best available rates in the market.

#### 4) Investment Fund's performance during the period:

Al Razeen USD Liquidity Fund's 2020 return was 0.82% while its benchmark, LIBOR for one month, return was 0.52%. The performance of the Fund is presented below:

Cumulative returns	Al-Razeen USD Liquidity Fund's Return % (Al Razeen USD)	Benchmark LIBOR for one month %
1 year	0.82	0.52
3 year	4.30	4.94
5 year	6.77	6.66
Since inception	174.46	118.65

**5) Details of any changes on the Terms and Conditions, Memorandum of Information or documents of the fund during the period:**

Below were the changes made to the fund's T&Cs during the year 2020:

Changes	Details
Fund board member Resignation Mr. Mohammed Jazzar	Clause 10 of IM : Delete Mr. Mohammed Jazzar from the fund board members in section 10 of IM
Fund board member Resignation Mr. Saleh Al-Sugair	Clause 10 of IM : Delete Mr. Saleh Al-Sugair from the fund board members in section 10 of IM
Appointing fund board member Mr. Ammar Bakheet	Clause 10 of IM : Appointing Mr. Ammar Bakheet as fund board member in section 10 of IM
Appointing fund board member Mr. Abdulaziz Al-Khurayef	Clause 10 of IM : Appointing Mr. Abdulaziz Al-Khurayef as fund board member in section 10 of IM
Appointing fund board member Mr. Syed Taj Ahmad	Clause 10 of IM : Appointing Mr. Syed Taj Ahmad as fund board member in section 10 of IM
Fund board member Resignation Mr. Irfan Said	Clause 10 of IM : Delete Mr. Irfan Said from the fund board members in section 10 of IM
Appointing fund board member Mr. Ali Al-Hawas	Clause 10 of IM : Appointing Mr. Ali Al-Hawas as fund board member in section 10 of IM
Adjust the VAT in T&Cs and IM	Adjust the VAT from 5% to 15% in T&Cs and IM
Adding the part contain the ability of return part or all the management fees to any of Unitholder	The possibility of returning part or all of the fund's management fees to any of the unitholders during the period of their holding of the units in the fund ,was added in the information memorandum, paragraph 17 b
Adjust the VAT in T&Cs and IM	Amend the VAT from 5% to become in writing ( Value added tax ) instead of 15% in T&Cs and IM
Management fees adjusting	Adding in T&Cs part 7(A) and IM Part 5(b): The fund manager has the right to waive part or all of the management fees that he deducts from the unitholder

*Note: These changes were duly approved by the Fund Board, CMA and unitholders were informed by notifications*

- 6) Samba Capital has included all necessary information that would enable unitholders to make an informed judgement about the fund's activities during the period.
- 7) Al Razeen USD Fund has not invested in any other fund in 2020.
- 8) No special commission was received by the fund manager during the period.
- 9) Others:
  - There has been no conflict of interest situation that required the fund board's approval in 2020.
  - Samba Capital has not invested in Al Razeen USD fund in 2020.

- The ratio of aggregate fees for the year 2020 to the average net asset value is presented in Section II.
- Organic breach, 25% of the fund's AUM with one counterparty. Due to a decrease in AUM.

#### IV. Custodian

**1) Name and Address of the Custodian:**

HSBC SAUDI ARABIA  
7267 Olaya Al Morooj, Riyadh 12283-2255, KSA

**2) Brief description of duties and responsibilities of custodian:** these include but are not limited to settlement of cash, settlement of trades, transfer of shares, maintaining corporate actions, printing confirmation for reconciliation, taking custody of assets of Fund managed by Samba Capital.

**3) Samba Capital has:**

- a) Issued, transferred and redeemed the units in accordance with the provisions of the Investment Funds Regulations and the Fund's Terms and Conditions.
- b) Valued and calculated the price of units in accordance with the provisions of the Investment Funds Regulations, the fund's Terms and Conditions and the information memorandum.
- c) Not breached any of the investment restrictions, limitations and borrowing powers applicable to the Investment Fund Regulations.

#### V. Auditor

**1) Name and address of auditor :**

PricewaterhouseCoopers  
Kingdom Center, 21st Floor  
PO Box 8282, Riyadh, 11482  
Kingdom of Saudi Arabia  
[www.pwc.com](http://www.pwc.com)  
+966 (11) 211 0400

**2) The Auditor's opinion is:**

In our opinion, the financial statements present fairly, in all material respects, the financial position of US Dollar Liquidity Fund (Al Razeen – USD) (the "Fund") as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

For more details, please refer to the auditor's report in attachment (Appendix I)

## VI. Financial Statements

Financial statements are presented in Appendix-1 with signed independent auditor's report.

### Disclaimer:

Samba Capital is authorized by the Capital Market Authority. Samba Capital does not guarantee the performance of any investment. The value of an investment in the Fund is variable and may increase or decrease. The Fund's past performance or the Benchmark's past performance is not necessarily a guide or predictor of the Fund's future performance. There is no guarantee to the unit holders that the Fund's absolute performance or its performance relative to the Benchmark will be repeated or similar to the previous performance. The prices or value or income of the units of the Fund may decrease and the investor may get back less than the amount invested. The income of the Fund from investment in securities may fluctuate and a part of the capital invested may be used to pay that income. The Fund invests in foreign currency denominated securities and therefore is exposed to foreign exchange risk that may have an adverse effect on the price, value or income of the Fund. Investment in investment funds is not a deposit with any bank. Investors may be exposed to loss of funds when investing in investment funds. The Fund Manager is not obliged to accept the redemption request of the units at the value of the offering. The value of the units and their revenues are subject to fluctuations. The investment may not be suitable for all recipients of the advertisement; Samba Capital recommends that if they have any doubts, they should seek advice from their investment adviser. Fees and charges apply as per Terms and Conditions; please refer to the T&Cs for more details on the risks involved while investing in the Fund. To obtain a copy of the T&Cs, information memorandum, fund reports to unitholders and financial statements, please visit our website [www.sambacapital.com](http://www.sambacapital.com) or call 800 755 7000 or visit your nearest Samba Capital investment center. Samba Capital or its affiliates may invest into the Fund and has or may have a position or holding in the securities concerned or in related securities. Samba Capital also carries on other independent securities business such as Corporate Finance, Investment Banking, Brokerage and Principal Investment. Samba Capital or its affiliates may provide or may have provided in the past 12 months, significant advice or securities business services to the issuers of securities, in which the Fund may invest from time to time or of related securities.

Samba Capital & Investment Management Company, CR 1010237159, CMA Authorization No. 07069-37 - Head Office: Kingdom Tower, Olaya, Riyadh, Saudi Arabia P.O. Box 220007, Riyadh 11311 - Phone: 966 11 211 7700 - Fax: 966 11 211 7799



**Appendix-1 (Financial Statements)**

**US Dollar Liquidity Fund  
(Al Razeen - USD)  
Financial Statements and  
Independent Auditor's Report  
for the Year Ended December 31, 2020**

**US Dollar Liquidity Fund (Al Razeen - USD)****FINANCIAL STATEMENTS**

For the year ended December 31, 2020

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## *Independent auditor's report to the unitholders and the Fund Manager of US Dollar Liquidity Fund (Al Razeen - USD)*

### *Report on the audit of the financial statements*

#### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of US Dollar Liquidity Fund (Al Razeen - USD) (the "Fund") as at December 31, 2020, 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 issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

#### **What we have audited**

The Fund's financial statements comprise:

- the statement of financial position as at December 31, 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity attributable to unitholders for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

#### *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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Fund in accordance with the code of professional 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.

#### *Responsibilities of the Fund Manager and those charged with governance for the financial statements*

The Fund Manager 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 issued by SOCPA, and the applicable provisions of the Investment Fund Regulations issued by the Capital Market Authority, and the Fund's terms and conditions and the Information Memorandum, and for such internal control as the Fund Manager 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, the Fund Manager 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 the Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Fund's financial reporting process.



## *Independent auditor's report to the unitholders and the Fund Manager of US Dollar Liquidity Fund (Al Razeen - USD) (continued)*

### *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.

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 scepticism 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 Manager's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund Manager.
- Conclude on the appropriateness of Fund Manager'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 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.

**PricewaterhouseCoopers**

Bader I. Benmohareb  
License Number 471

April 6, 2021  
(Sha'aban 24, 1442H)



**US Dollar Liquidity Fund (Al Razeen - USD)****STATEMENT OF FINANCIAL POSITION****As at December 31, 2020 and 2019**

	Notes	2020 USD	2019 USD
<b>ASSETS</b>			
Cash at bank	8	396,800	3,288,703
Investments measured at amortised cost	4	17,351,997	28,325,539
<b>TOTAL ASSETS</b>		<b>17,748,797</b>	<b>31,614,242</b>
<b>LIABILITIES</b>			
Management fee payable	5	17,024	42,810
Other liabilities		30,332	42,596
<b>TOTAL LIABILITIES</b>		<b>47,356</b>	<b>85,406</b>
<b>EQUITY ATTRIBUTABLE TO UNITHOLDERS</b>		<b>17,701,441</b>	<b>31,528,836</b>
Units in issue		645,428	1,158,839
Per unit value	6	USD 27.43	USD 27.21

The accompanying notes 1 to 12 form an integral part of these financial statements.

**US Dollar Liquidity Fund (Al Razeen - USD)****STATEMENT OF COMPREHENSIVE INCOME**  
**Year Ended December 31, 2020 and 2019**

	<b>Notes</b>	<b>2020 USD</b>	<b>2019 USD</b>
<b>INVESTMENT INCOME</b>			
Special commission income		<u>313,197</u>	<u>791,889</u>
<b>TOTAL INCOME</b>		<u>313,197</u>	<u>791,889</u>
<b>EXPENSES</b>			
Management fee	5	<b>111,836</b>	168,477
Others		<b>10,870</b>	53,388
Reversal of loss allowance	9	<u>(1,475)</u>	<u>(851)</u>
<b>TOTAL EXPENSES</b>		<u>121,231</u>	<u>221,014</u>
<b>NET INCOME FOR THE YEAR</b>		<u>191,966</u>	<u>570,875</u>
Other comprehensive income		<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>191,966</u>	<u>570,875</u>

The accompanying notes 1 to 12 form an integral part of these financial statements.

**US Dollar Liquidity Fund (Al Razeen - USD)****STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO UNITHOLDERS**

Year Ended December 31, 2020 and 2019

	<b>2020</b> <b>USD</b>	<b>2019</b> <b>USD</b>
<b>EQUITY AT THE BEGINNING OF THE YEAR</b>	<b>31,528,836</b>	<b>32,572,038</b>
<b>CHANGES FROM OPERATIONS</b>		
Total comprehensive income for the year	<b>191,966</b>	<b>570,875</b>
<b>CHANGES FROM UNIT TRANSACTIONS</b>		
Proceeds from units sold	<b>2,009,846</b>	<b>1,743,342</b>
Value of units redeemed	<b>(16,029,207)</b>	<b>(3,357,419)</b>
Net change from unit transactions	<b>(14,019,361)</b>	<b>(1,614,077)</b>
<b>EQUITY AT THE END OF THE YEAR</b>	<b>17,701,441</b>	<b>31,528,836</b>

**UNIT TRANSACTIONS**

Transactions in units for the year are summarised as follows:

	<b>2020</b> <b>Units</b>	<b>2019</b> <b>Units</b>
<b>UNITS AT THE BEGINNING OF THE YEAR</b>	<b>1,158,839</b>	<b>1,218,951</b>
Units sold	<b>73,505</b>	<b>64,516</b>
Units redeemed	<b>(586,916)</b>	<b>(124,628)</b>
Net change in units	<b>(513,411)</b>	<b>(60,112)</b>
<b>UNITS AT THE END OF THE YEAR</b>	<b>645,428</b>	<b>1,158,839</b>

The accompanying notes 1 to 12 form an integral part of these financial statements.

**STATEMENT OF CASH FLOWS**



**US Dollar Liquidity Fund (Al Razeen - USD)****Year Ended December 31, 2020 and 2019**

	<b>Notes</b>	<b>2020 USD</b>	<b>2019 USD</b>
<b>OPERATING ACTIVITIES</b>			
Net income for the year		<b>191,966</b>	570,875
Adjustment for:			
Loss allowance	9	<b>(1,475)</b>	(851)
		<b>190,491</b>	570,024
Changes in operating assets and liabilities:			
Investments measured at amortised cost		<b>6,410,553</b>	(14,564,282)
Management fee payable		<b>(25,786)</b>	(2,338)
Other liabilities		<b>(12,264)</b>	25,592
Net cash generated from / (used in) operating activities		<b>6,562,994</b>	(13,971,004)
<b>FINANCING ACTIVITIES</b>			
Proceeds from units sold		<b>2,009,846</b>	1,743,342
Value of units redeemed		<b>(16,029,207)</b>	(3,357,419)
Net cash used in financing activities		<b>(14,019,361)</b>	(1,614,077)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>(7,456,367)</b>	(15,585,081)
Cash and cash equivalents at the beginning of the year		<b>16,056,483</b>	31,641,564
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	8	<b>8,600,116</b>	16,056,483

The accompanying notes 1 to 12 form an integral part of these financial statements.

## 1 GENERAL

US Dollar Liquidity Fund (Al Razeen – USD) (the Fund) is a specialized public open-ended investment fund designed for investors seeking liquidity and capital appreciation. The assets of the Fund are invested in money market instruments. All income is reinvested in the Fund and reflected in the unit price. The Fund is managed by Samba Capital & Investment Management Company (the Manager), a wholly owned subsidiary of Samba Financial Group (the Bank).

## 2 REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the Regulations) published by the Capital Market Authority (CMA) on Dhul Hijja 3, 1427H (corresponding to December 24, 2006) as amended by the resolution of the CMA Board on 16 Sha'aban 1437H (corresponding to May 23, 2016).

## 3 SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Basis of preparation

These financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

#### *Functional and presentation currency*

Items included in these financial statements are measured using the currency of the primary economic environment in which the Fund operates (the "functional currency"). These financial statements are presented in US Dollars ("USD") which is the Fund's functional and presentation currency.

#### *Accounting convention*

These financial statements are prepared under the historical cost convention except for financial assets held at amortised cost which are stated at net of expected credit losses. Assets and liabilities are presented in order of liquidity. However, all balances would generally be classified as current except for "Investments measured at amortised cost".

### 3.2 Use of estimates in the preparation of the financial statements

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The measurement of the expected credit loss (ECL) allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior.

A number of significant judgments are also required in applying the accounting requirements for measuring 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 a group of similar financial assets for the purposes of measuring ECL.

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 9.1(c), which also sets out key sensitivities of the ECL to changes in these elements.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Foreign currencies

Transactions in foreign currencies are translated into US Dollars, which is the functional and presentation currency of the Fund, at the rates of exchange prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the rates of exchange ruling at that date. Resulting exchange gains and losses, if any, are taken to the statement of comprehensive income.

#### 3.4 Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise current accounts with banks and money market placements with an original maturity of three months or less.

#### 3.5 Financial instruments

##### 3.5.1 Measurement methods

###### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Fund becomes a party to the contractual provisions of the instrument. The Fund records investments in trade finance investments and Sukuks and bonds on a 'trade date' basis.

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 income statement (FVIS), 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 FVIS are expensed in the statement of comprehensive income. Immediately after initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost, as described in Note 3.5.3, which results in an accounting loss being recognised in the statement of comprehensive income when an asset is newly originated. The financial liabilities are subsequently measured at amortised cost unless it has been designated at FVIS.

##### 3.5.2 Classification and measurement of financial assets

The Fund classifies its financial assets at amortised cost. The classification requirements for debt instruments are described below:

###### Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as trade finance investments and Sukuks and bonds.

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 the following measurement category:

**Amortised 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 FVIS, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 3.5.3. Profit earned from these financial assets is recognised in the statement of comprehensive income using the effective commission rate method.

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

### **3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **3.5 Financial instruments(continued)**

##### **3.5.2 Classification and measurement of financial assets(continued)**

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 FVIS. Securities held for trading are held principally for the purpose of selling in the near term 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 FVIS.

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 FVIS.

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.

##### **3.5.3 Impairment of financial assets**

The Fund assesses on a forward-looking basis the ECL associated with its financial assets carried at amortised cost. The Fund recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; 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.

Details of measuring the expected credit loss allowance is provided in Note 9.1(c).

##### **3.5.4 De-recognition of financial instruments**

A financial asset is derecognized, when the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition. In instances where the Fund is assessed to have transferred a financial asset, the asset is derecognized if the Fund has transferred substantially all the risks and rewards of ownership. Where the Fund has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Fund has not retained control of the financial asset. The Fund recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

#### **3.6 Offsetting**

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.

#### **3.7 Accrued expenses and other payables**

Accrued expenses and other payables are recognised initially at fair value and subsequently measured at amortised cost.

### **3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **3.8 Redeemable units**

The net asset value i.e. equity of the Fund's portfolio is determined on each Valuation Day. The unit price is calculated by subtracting the liabilities from the total assets value, then dividing the equity by the number of units outstanding on a 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 are 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 share 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 income statement, 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.

The Fund's redeemable units meet the definition of puttable instruments classified as equity instruments under IFRS and accordingly, are classified as equity instruments.

#### **3.9 Zakat and income tax**

Zakat and income tax is the obligation of the unit holders and is not provided for in the financial statements.

#### **3.10 Revenue recognition**

Revenue is recognised 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 primarily consists of special commission income which is recognised on an effective yield basis.

#### **3.11 Provisions**

Provisions are recognized when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### **3.12 Accounting standards effective during the year**

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments which were effective from January 1, 2020 but does not have significant impact on the financial statements of the Fund.

- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

#### **3.13 Accounting standards issued but not yet effective**

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments which were effective from period on or after January 1, 2021. The Fund has opted not to early adopt these pronouncements and they do not have a significant impact on the financial statements of the Fund.

- Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions.
- Amendments to IFRS 17 and IFRS 4, 'Insurance contracts', deferral of IFRS 9.
- Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2.
- Amendments to IAS 1, Presentation of financial statements' on classification of liabilities.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****3.13 Accounting standards issued but not yet effective (continued)**

- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16.
- IFRS 17, 'Insurance contracts.'

**4 INVESTMENTS MEASURED AT AMORTISED COST**

	2020 USD	2019 USD
Money market placements with the Bank	-	7,911,072
Money market placements with other banks	17,365,045	19,421,865
Sukuks and bonds	-	1,007,125
	<hr/>	<hr/>
Gross carrying value	17,365,045	28,340,062
Loss allowance	(13,048)	(14,523)
	<hr/>	<hr/>
Net carrying value	17,351,997	28,325,539
	<hr/>	<hr/>

Set out below are the maturity details of gross carrying value of investments:

	2020 USD	2019 USD
Maturity within 3 months	11,344,180	19,425,149
Maturity within 3 - 12 months	6,020,865	8,914,913
	<hr/>	<hr/>
	17,365,045	28,340,062
	<hr/>	<hr/>

Revenue from the investments is as follows:

	2020 USD	2019 USD
Money market placements - Murabaha	289,865	746,754
Bonds	23,332	45,135
	<hr/>	<hr/>
	313,197	791,889
	<hr/>	<hr/>

**5 TRANSACTIONS WITH RELATED PARTIES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the ordinary course of business, the Fund transacts with the related parties. The principal related parties of the Fund are the Fund Manager, the Bank and the Fund Board

The Fund records management fee payable to the Manager calculated at an annual rate of 0.20% (2019: 0.50%) of the net asset value at each valuation date. The Bank acts as one of the Fund's bankers, cash at bank includes USD 40,914 (2019: USD 140,582) held with the Bank. Trade finance investments with the Bank are disclosed in note 4. Other expenses for the year include USD 5,199 (2019: USD 5,386) towards the Fund Board remuneration.

**6 EFFECT ON EQUITY IF EXPECTED CREDIT LOSSES ARE NOT RECOGNIZED**

In accordance with CMA circular no. 1/6/1872/17 dated 13 Rabi Al-Thani 1439H (corresponding to December 31, 2017), the CMA Board decided on 10 Rabi Al-Thani 1439H (corresponding to December 28, 2017) to restrict the recording of expected credit losses calculated in accordance with IFRS 9 only for the purpose of the investment fund's financial statements. Adjustment of the unit price calculated according to the applicable financial reporting framework alongside with the unit price calculated for the purpose of unit transactions is as set out below:

i) Expected credit losses on financial assets as at December 31, 2020 is as set out below:

	<b>2020</b>	<b>2019</b>
	<b>USD</b>	<b>USD</b>
Expected credit losses on financial assets	<b>13,048</b>	14,523
Units in issue	<b>645,428</b>	1,158,839
Per unit share of expected credit losses	<b>0.02</b>	0.01

ii) The Equity, after incorporating expected credit losses as at December 31, 2020 is set out below:

	<b>2020</b>	<b>2019</b>
	<b>USD</b>	<b>USD</b>
Equity per unit expected credit losses as per these financial statements	<b>27.43</b>	27.21
Per unit share of expected credit losses	<b>0.02</b>	0.01
Equity per unit before expected credit losses	<b>27.45</b>	27.22

**7 FINANCIAL INSTRUMENTS BY CATEGORY**

All financial assets and financial liabilities as at December 31, 2020 and December 31, 2019 were classified under amortised cost category.

**8 CASH AND CASH EQUIVALENTS**

	<b>2020</b>	<b>2019</b>
	<b>USD</b>	<b>USD</b>
Money market placements with an original maturity of three months or less	<b>8,203,316</b>	12,767,780
Cash at bank	<b>396,800</b>	3,288,703
	<b>8,600,116</b>	16,056,483

## 9 RISK MANAGEMENT

The Manager has in place policies and procedures to identify risks affecting the Fund's investments and to ensure that such risks are addressed as soon as possible, which include conducting a risk assessment at least once a year. The Manager also applies a prudent spread of risk while taking into consideration the Fund's investment policies, the Term and Conditions, and the Information Memorandum. Furthermore, the Manager makes every effort to ensure that sufficient liquidity is available to meet any anticipated redemption request. The Board of the Fund plays a role in ensuring that the Manager fulfils its responsibilities to the benefit of the Unitholders in accordance with the provisions of the Investment Funds Regulations, the Terms and Conditions and the Information Memorandum.

### 9.1 Financial risk factors

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

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

#### (a) *Market risk*

##### (i) *Special commission rate risk*

Special commission rate risk arises from the possibility that changes in market special commission rates will affect future profitability or the fair value of the financial instruments.

As of the date of the statement of financial position, the Fund is not exposed to significant special commission rate risk as the majority of its assets are fixed special commission bearing and the liabilities are non-commission bearing.

##### (ii) *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Fund's financial assets and liabilities are denominated in US Dollars and therefore the Fund is not exposed to any currency risks.

#### (b) *Liquidity risk*

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

The Fund's terms and conditions provide for subscriptions and redemptions of units throughout the week and the Fund is therefore exposed to the liquidity risk of not meeting unit holder redemptions. Money market placements are generally placed for the short term. The Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet commitments as they arise. The Fund's financial liabilities are payable within 3 months.

##### (c) *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund is exposed to credit risk on its financial assets. The Manager seeks to limit its credit risk by monitoring credit exposures and setting limits for money market placements. The maximum exposure to the credit risk for the financial assets is their carrying value.

### Expected credit loss measurement

Under the expected credit loss model, credit losses are recognised prior to a credit event occurring. The new impairment model requires more timely and forward-looking information that will allow for a more accurate reflection of the credit risk inherent in the exposures.



**9 RISK MANAGEMENT (continued)**

**9.1 Financial risk factors(continued)**

Under the general approach of IFRS 9 impairment, the financial assets are classified into three stages. Each stage indicates the credit quality of the particular financial asset.

Stage 1: includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses are recognised and special commission income is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance).

Stage 2: includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but special commission income is still calculated on the gross carrying amount of the asset.

Stage 3: includes financial instruments that have objective evidence of impairment at the reporting date. This stage has obligors that already are impaired (defaulted).

One of the key components of IFRS 9 ECL is to determine whether there have been significant increases in credit risk (SICR) of the Fund's credit exposures since initial recognition. The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECL and one that is based on lifetime ECL.

The performance of the financial assets is monitored on a regular basis against the pre-defined classification/triggers to ensure the effectiveness and relevance thereof and to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria are no more liberal than the point in time when an asset becomes 30 days past due; and
- There is stability in the loss allowance arising from transfers between 12-month PD (stage 1) and lifetime PD.

The Fund has set out the following definition of default:

"Default" is defined as either non-payment of a material financial obligation persisting for 90 days or the occurrence of events that would lead the Fund to consider that the obligor is unlikely to service its credit obligations to the Fund. In assessing whether a borrower is in default, the Fund considers factors that are:

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

Probability of Default (PD) estimates are estimates at certain date at which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

Loss Given Default (LGD) is the magnitude of the likely loss if there is a default. The Fund estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure of the claim and recovery costs of any collateral that is integral to the financial asset.

Exposure at Default (EAD) is an estimation of the extent that the Fund may be exposed to an obligor in the event of default. The Fund derives the EAD from the current exposure to the counterparty. The estimation of EAD should consider any expected changes in the exposure after the assessment date. This is of importance in the case of Stage 2 assets where the point of default may be several years in the future. The EAD of a financial asset is its gross carrying amount.

## 9 RISK MANAGEMENT (continued)

## 9.1 Financial risk factors(continued)

The table below shows the maximum exposure to credit risk on financial instruments subject to impairment.

	As at December 31, 2020			As at December 31, 2019
	Stage 1	Stage 2	Stage 3	Total USD
	12-month	Lifetime	Lifetime	
	ECL USD	ECL USD	ECL USD	
Cash at bank	396,800	-	-	3,288,703
Investments measured at amortised cost	17,365,045	-	-	28,340,062
<b>Gross carrying amount</b>	<b>17,761,845</b>	<b>-</b>	<b>-</b>	<b>31,628,765</b>
Loss allowance	(13,048)	-	-	(14,523)
<b>Carrying amount</b>	<b>17,748,797</b>	<b>-</b>	<b>-</b>	<b>31,614,242</b>

The movement of loss allowance is as below:

	2020 12 Months ECL USD	2019 12 Months ECL USD
Balance as of January 1	14,523	15,374
Reversal for the year	(1,475)	(851)
Closing balance as of December 31	13,048	14,523

The effect on the loss allowance as at December 31, 2020 due to a 10 basis point change in the probability of default, keeping other parameters constant is 1,305 (2019: USD 1,452).

The Manager reviews credit concentration of the investment portfolio based on counterparties. The credit quality of the financial assets is managed using the external credit ratings of Moody's, S&P and Fitch. As at December 31, 2020 and December 31, 2019, the Fund had investments with credit ratings ranging from AA3 to A1. The bank balances are held with banks which have investment grade credit rating. The geographical concentration of the investments held at amortised cost is as follows.

	December 31, 2020 USD	December 31, 2019 USD
United Arab Emirates	8,114,141	12,611,486
Kuwait	6,346,381	5,396,659
Bahrain	2,904,523	-
Saudi Arabia	-	9,324,792
United Kingdom	-	1,007,125
	<b>17,365,045</b>	<b>28,340,062</b>

**9 RISK MANAGEMENT (continued)**

**9.2 Capital risk management**

The capital of the Fund is represented by the equity attributable to holders of redeemable units. The amount of equity attributable to holders of redeemable units can change significantly on each valuation day, as the Fund is subject to subscriptions and redemptions at the discretion of unitholders on every valuation day, as well as changes resulting from the Fund's performance. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders, provide benefits for other stakeholders and maintain a strong capital base to support the development of the investment activities of the Fund.

The Fund Board and the Manager monitor capital on the basis of the value of equity attributable to unitholders.

**9.3 Fair value estimation**

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 Fund uses following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The estimated fair value of the Fund's financial assets and liabilities is not considered to be significantly different from their carrying values. Currently, the Fund does not have any investments which are carried at fair value.

**10 LAST VALUATION DAY**

The last valuation date for the purpose of preparation of these financial statements was December 31, 2020 (2019: December 31, 2019).

**11 IMPACTS OF COVID-19**

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by the Government to contain the virus have affected economic activity. The management has taken several measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our people (such as social distancing and working from home) and securing the supply of materials that are essential to our operations.

The prevailing economic conditions post lock down, require the Fund to revise certain inputs and assumptions used for the determination of ECL. These primarily revolve around either adjusting macroeconomic factors used by the Fund in estimation of ECL or revisions to the scenario probabilities currently being used by the Fund in ECL estimation. The Fund has made certain adjustments to the macroeconomic factors and scenario weightings during the period and has adjusted the ECL accordingly.

The Fund's ECL model continues to be sensitive to macroeconomic variables and scenario weightings. As with any forecast, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental and the Fund will continue to reassess its position and the related impact on a regular basis.

At this stage, the impact on the Fund's business and results has not been significant and based on experience to date, the management expects this to remain the case. The management will continue to follow the Government policies and advice and, in parallel, we will do its utmost to continue our operations in the best and safest way possible without jeopardising the health of its people.

**12 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved and authorized for issue by the Fund Board on April 4, 2021 (corresponding to 22 Sha'ban 1442H).