

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
Financial Statements
For the year ended 31 December 2020
together with the
Independent Auditor's Report to the Unitholders

JADWA ARAB MARKETS EQUITY FUND
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Financial Statements
For the year ended 31 December 2020

	<u>PAGES</u>
INDEPENDENT AUDITOR’S REPORT	1 - 2
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF COMPREHENSIVE INCOME	4
STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS	5 - 6
STATEMENT OF CASH FLOWS	7
NOTES TO THE FINANCIAL STATEMENTS	8 - 27



KPMG Professional Services

Riyadh Front, Airport Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Headquarter

Commercial Registration No 1010425494

كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

Independent Auditor's Report

To the Unitholders of Jadwa Arab Markets Equity Fund

Opinion

We have audited the financial statements of **Jadwa Arab Markets Equity Fund** (the "Fund") managed by Jadwa Investment Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2020, the statements of comprehensive income, changes in net assets (equity) attributable to the Unitholders and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 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 pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

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

Responsibilities of 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 IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and to comply with the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority ("CMA"), 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

KPMG professional Services, a professional closed joint stock company registered in the Kingdom of Saudi Arabia. With the paid-up capital of (15,000,000) SAR. (Previously known as "KPMG Al Fozan & Partners Certified Public Accountants") A non-partner member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

كي بي إم جي للاستشارات المهنية شركة مهنية مساهمة مغلقة، مسجلة في المملكة العربية السعودية، رأس مالها (١٥,٠٠٠,٠٠٠) ريال سعودي مدفوع بالكامل، المسماة سابقاً "شركة كي بي إم جي الفوزان وشركاه محاسبون ومراجعون قانونيون". هي عضو غير شريك في الشبكة العالمية لشركات كي بي إم جي المستقلة والتابعة لـ كي بي إم جي العالمية المحدودة، شركة انجليزية محدودة بضمان. جميع الحقوق محفوظة.

Independent Auditor's Report

To the Unitholders of Jadwa Arab Markets Equity Fund (continued)

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

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 the 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, then 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 of **Jadwa Arab Markets Equity Fund** (the "Fund").

KPMG Professional Services

Khalil Ibrahim Al Sedais
License No. 371

Date: 19 Sha'ban 1442H
Corresponding to: 1 April 2021



JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(Amounts in Saudi Arabian Riyals)

	<i>Notes</i>	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents		1,432,381	1,375,915
Investments	7	22,670,391	19,404,063
Dividend receivable		--	13,948
Total assets		24,102,772	20,793,926
LIABILITIES			
Management fee payable	1(c), 8	48,030	35,250
Accrued expenses and other liabilities		74,286	31,319
Fund Board fee payable	8	--	2,828
Total liabilities		122,316	69,397
Net assets (equity) attributable to the Unitholders		23,980,456	20,724,529
Units in issuance (numbers)			
Class A		100,899.67	--
Class B		39,678.96	69,172.11
Class C		2,598.03	--
Net assets (equity) attributable to each unit (SAR)			
Class A		99.6201	--
Class B		343.1741	299.6082
Class C		120.1023	--

The accompanying notes (1) to (14) form an integral part of these financial statements

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

		For the year ended 31 December	
	<i>Notes</i>	<u>2020</u>	<u>2019</u>
Gain on investments, net	7.1	3,205,018	2,925,700
Dividend income		549,258	724,061
Total revenue		<u>3,754,276</u>	<u>3,649,761</u>
Management fee	1(c), 8	(398,818)	(383,565)
Other operating expenses		(262,352)	(167,993)
Fund Board fee	8	(13,172)	(10,828)
Foreign exchange gain		5,468	17,774
Total operating expenses		<u>(668,874)</u>	<u>(544,612)</u>
Net profit for the year		<u>3,085,402</u>	<u>3,105,149</u>
Other comprehensive income for the year		--	--
Total comprehensive income for the year		<u>3,085,402</u>	<u>3,105,149</u>

The accompanying notes (1) to (14) form an integral part of these financial statements

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE TO THE
UNITHOLDERS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

	For the year ended	
	31 December	
	<u>2020</u>	<u>2019</u>
Net assets (equity) attributable to the Unitholders at beginning of the year	20,724,529	17,862,452
Net profit for the year	3,085,402	3,105,149
<i>Contributions and redemptions by the Unitholders</i>		
Proceeds from issuance of units		
Class A	10,089,967	--
Class B	11,842,013	4,345
Class C	286,027	--
	<u>22,218,007</u>	<u>4,345</u>
Payment made against redemptions of units		
Class A	--	--
Class B	(21,997,482)	(247,417)
Class C	(50,000)	--
	<u>(22,047,482)</u>	<u>(247,417)</u>
Net assets (equity) attributable to the Unitholders	<u>23,980,456</u>	<u>20,724,529</u>

The accompanying notes (1) to (14) form an integral part of these financial statements

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS (CONTINUED)
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

	31 December 2020				31 December 2019			
Units transactions (numbers)								
<u>Units in issuance</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	<u>Total</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	<u>Total</u>
Units in issuance at the beginning of the year	--	69,172.11	--	69,172.11	--	70,065.49	--	70,065.49
Units issued	100,899.67	34,707.71	3,056.31	138,663.69	--	15.19	--	15.19
Units redeemed	--	(64,200.86)	(458.28)	(64,659.14)	--	(908.57)	--	(908.57)
Units in issuance at end of the year	<u>100,899.67</u>	<u>39,678.96</u>	<u>2,598.03</u>	<u>143,176.66</u>	<u>--</u>	<u>69,172.11</u>	<u>--</u>	<u>69,172.11</u>

The accompanying notes (1) to (14) form an integral part of these financial statements

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

		For the year ended 31 December	
	<i>Note</i>	<u>2020</u>	<u>2019</u>
Cash flows from operating activities			
Net profit for the year		3,085,402	3,105,149
<i>Adjustments for:</i>			
Dividend income		(549,258)	(724,061)
Gain on investments, net	7.1	(3,205,018)	(2,925,700)
		(668,874)	(544,612)
Net changes in operating assets and liabilities			
Purchase of investments		(18,828,749)	(11,226,410)
Proceeds from sale of investments		18,767,439	12,210,874
Management fee payable		12,780	4,622
Accrued expenses and other liabilities		42,967	(5,444)
Fund Board fee payable		(2,828)	(5,172)
Dividend received		563,206	717,408
Net cash (used in) / generated from operating activities		(114,059)	1,151,266
Cash flows from financing activities			
Proceeds from issue of units		22,218,007	4,345
Payment made against redemption of the units		(22,047,482)	(247,417)
Net cash generated from / (used in) financing activities		170,525	(243,072)
Net increase in cash and cash equivalents		56,466	908,194
Cash and cash equivalents at beginning of the year		1,375,915	467,721
Cash and cash equivalents at end of the year		1,432,381	1,375,915

The accompanying notes (1) to (14) form an integral part of these financial statements

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

- (a) Jadwa Arab Markets Equity Fund (the “Fund”) is an open-ended equity fund established and managed as per terms and conditions between Jadwa Investment Company (the “Fund Manager”) and the Fund Investors (the “Unitholders”). The Capital Market Authority’s (“CMA”) approval for the establishment of the Fund was granted in its letter number 443 dated Jumad Awal 9, 1428 H (corresponding to 26 May 2007). The Fund commenced its operations on 30 June 2007. The Fund has three different unit classes, i.e. ‘Unit Class A’, Unit Class B’ and ‘Unit Class C’. During the current year, the terms & conditions of the Fund were amended to create 'Unit Class D' effective from 24 February 2020. As at 31 December 2020, no "Unit Class D" have been issued.

The Fund aims to provide investors with long-term capital appreciation by investing in equities listed on the stock markets of Arab countries while ensuring that the selected equities are compliant with the Shariah standards approved by the Fund Manager’s Shariah Committee.

- (b) 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 Fund Manager of the Fund is Jadwa Investment and administrator and custodian of the Fund is HSBC Saudi Arabia.

The Fund is governed by Investment Fund Regulations (the “Regulations”) published by Capital \ Market Authority (“CMA”) on 3 Dhul Hijja 1427 H (corresponding to 24 December 2006) thereafter amended (the “amended regulations”) on 12 Rajab 1442 H (corresponding to 24 January 2021), detailing requirements for all funds within the Kingdom of Saudi Arabia. The amended regulations came into effect from 6 Safar 1438 H (corresponding to 6 November 2016).

- (c) The management of the Fund is the responsibility of the Fund Manager. However, in accordance with the Fund’s terms and conditions, 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.

The Fund Manager charges the Fund a management fee of 1.95% per annum of the equity value till the date of conversion of units as explained above. Subsequent to that, the management fee is charged at 1.25%, 1.95%, 0.98% and 1.95% of the equity value of Class A, Class B, Class C and Class D units respectively at each valuation day.

The Fund Manager may charge investors a subscription fee at a percentage not to exceed 3% of the subscribed amount. The subscription fee is not included in these financial statements.

In addition, the Fund Manager has the right to collectively charge the Fund all other expenses related to the management of the Fund, including but not limited to audit fee and legal charges subject to limits as set out in the Fund’s terms and conditions.

2. BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (“SOCPA”) and to comply with the applicable provisions of the Investment Fund Regulations issued by CMA, the Fund’s terms and conditions and the Information Memorandum.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

3. BASIS OF MEASUREMENT

These financial statements have been prepared on a historical cost convention, except for the investments which are carried at fair value, using accrual basis of accounting and the going concern concept.

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity.

4. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Saudi Arabian Riyal ("SAR"), which is the Fund's functional currency. All amounts have been rounded to the nearest SAR, unless otherwise indicated.

5. USE OF JUDGMENTS AND ESTIMATES

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

6. 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. A number of new standards are effective from 1 January 2020 but they do not have a material effect on the Fund's financial statements.

a) *Foreign currency translation*

Transactions in currencies other than functional currencies are translated into SAR at the exchange rate at the dates of the transactions. Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income. Monetary assets and liabilities denominated in foreign currencies are retranslated into SAR at the exchange rate at the reporting date. Foreign currency differences arising on retranslation are recognized in statement of comprehensive income as net foreign exchange losses, except for those arising on financial instruments at FVTPL which are recognized as a component of net gain from financial instruments at FVTPL.

b) *Functional currency*

Functional currency' is the currency of the primary economic environment in which the Fund operates. If indicators of the primary economic environment are mixed, then management uses its judgment to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The majority of the Fund's investments and transactions are denominated in SAR. Investor subscriptions and redemptions are determined based on equity value, and received and paid in SAR. The expenses (including management fees, custodian fees and administration fees) are denominated and paid in SAR. Accordingly, management has determined that the functional currency of the Fund is SAR.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) *Dividend income*

Dividend income is recognized in statement of comprehensive income on the date on which the right to receive payment is established. For quoted equity securities, this is usually the ex-dividend date. For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend. Dividend income from equity securities designated as at fair value through profit or loss ("FVTPL") is recognized in statement of comprehensive income in a separate line item.

d) *Zakat / taxation*

Under the current system of zakat and income tax in the Kingdom of Saudi Arabia, the Fund is exempt from paying any zakat and income tax. Zakat and income tax are considered to be the obligation of the Unitholders and are not provided in the accompanying financial statements.

The Value Added Tax ("VAT") applicable for fees and expenses are recognized in the statement of comprehensive income.

e) *Provisions*

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

f) *Management fee*

Management fee is recognized in the statement of comprehensive income as the related services are performed.

g) *Cash and cash equivalents*

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Fund in the management of short-term commitments.

h) *Financial assets and liabilities*

Classification of financial assets

On initial recognition, a financial asset is classified and measured at amortized cost, fair value through other comprehensive income ("FVOCI") or FVTPL.

Financial asset at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial assets and liabilities (continued)

Financial asset at fair value through other comprehensive income ("FVOCI")

A financial asset is measured at fair value through FVOCI only if it meets both of the following conditions and is not designated as at FVTPL.

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principle and interest on the principle amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Fund Manager may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial asset at fair value through profit or loss ("FVTPL")

All financial assets not classified as measured at amortized cost or FVOCI are measured at FVTPL.

Business model assessment

The Fund Manager assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Fund Manager;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Fund's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Fund's original expectations, the Fund does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Commission' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Fund considers:

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial assets and liabilities (continued)

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Fund changes its business model for managing financial assets.

Classification of financial liabilities

The Fund classifies its financial liabilities at amortized cost unless it has designated liabilities at FVTPL.

Recognition and initial measurement

Financial assets at FVTPL are initially recognized on the trade date, which the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated.

Financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition issue.

Subsequent measurement

Financial assets at FVTPL are subsequently measured at fair value. Net gains or losses including any foreign exchange gains and losses, are recognized in profit or loss in 'gains / (losses) on investments, net' in the statement of comprehensive income.

Financial assets and financial liabilities at amortized cost are subsequently measured at amortized cost using effective interest method and is recognized in statement of comprehensive income. Any gain or loss on de-recognition is also recognized in statement of comprehensive income. The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principle repayments, plus or minus the cumulative amortizing using effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Derecognition

The Fund derecognizes a financial asset when the contractual rights to the cash flow from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of the financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognized in statement of comprehensive income. Any interest in such transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial assets and liabilities (continued)

The Fund enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all of the risk and rewards are retained, then the transferred assets are not derecognized.

The Fund derecognize a financial liability when its contractual obligations are discharged or cancelled, or expire.

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 has legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle them liability simultaneously. Income and expenses are presented on a net basis for gain and losses from financial instruments at FVTPL and foreign exchange gains and losses.

i) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

When available, the Fund measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Fund measures instruments quoted in an active market as per the official closing price in the related stock exchange where the instrument is traded.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

j) Distributions to the Unitholders

Distribution to the Unitholders is accounted for as a deduction from net assets (equity) attributable to the Unitholders. An interim dividend is recognized as a liability in the period in which it is irrevocably declared by the Fund Board. A final dividend is recognized as a liability in the period in which it is approved by the Fund Board.

k) Redeemable Units

The Fund classified financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Fund has redeemable units in issue. On liquidation of the Fund, they entitle the holders to the residual net assets. They rank pari passu in all respects and have identical terms and conditions. The redeemable units provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund net assets at each redemption date and also in the event of the Fund's liquidation.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Redeemable Units (continued)

Redeemable units are classified as equity as it meets all of the following conditions:

- it entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- it 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 other features that would require classification as a liability; and
- the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in 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.

l) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Fund has not early adopted the new or amended standards in preparing these financial statements.

<u>Standards / Interpretation Description</u>		<i>Effective from periods beginning on or after the following date</i>
Amendments to IAS 37	Onerous contracts – Cost of fulfilling a contract	1 January 2022
Amendments to IFRS 16	Leases for COVID -19 rent related concessions	1 June 2020
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IFRS 3	Reference to Conceptual Framework	1 January 2022
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023

Furthermore, the Capital Market Authority, on March 1, 2021, has issued certain amendments to the Investment Funds Regulations and Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority. These amendments have effective dates starting from May 1, 2021. The Fund Manager is currently in the process of evaluating the impact, if any, of these amendments on the Fund's financial statements.

7. INVESTMENTS

	<i><u>Note</u></i>	31 December 2020	31 December 2019
Equity securities			
- FVTPL	10 (a)	22,670,391	19,404,063

7.1 Below are the details of gain on investments:

	31 December 2020	31 December 2019
Realized gain on investments at FVTPL, net	2,389,999	1,766,464
Unrealized gain on investments at FVTPL, net	815,019	1,159,236
	3,205,018	2,925,700

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

8. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Fund include the Fund Manager and other funds managed by the Fund Manager. In the ordinary course of its activities, the Fund transacts business with the Fund Manager.

In addition to transactions disclosed elsewhere in these financial statements, the Fund entered into the following transactions with related parties during the year. These transactions were carried out on the basis of approved terms and conditions of the Fund.

<u>Related party</u>	<u>Nature of relationship</u>	<u>Nature of transactions</u>	<u>For the year ended 31 December</u>	
			<u>2020</u>	<u>2019</u>
Jadwa Investment Company	The Fund Manager	Management fee	<u>398,818</u>	<u>383,565</u>
Jadwa REIT Saudi Fund	A fund managed by the Fund Manager	Purchase of investments	<u>343,887</u>	<u>1,001,065</u>
		Sale of investments	<u>451,227</u>	<u>607,294</u>
The Fund Board	The Fund Board	The Fund Board compensation (independent member)	<u>13,172</u>	<u>10,828</u>

Balances arising from above transactions with related parties are as follows:

<u>Related party</u>	<u>Nature of relationship</u>	<u>Nature of balances</u>	<u>31 December 2020</u>	<u>31 December 2019</u>
Jadwa Investment Company	The Fund Manager	Management fee payable	<u>48,030</u>	<u>35,250</u>
The Fund Board	The Fund Board	Fee payable to an independent member of the Fund Board	<u>--</u>	<u>2,828</u>

9. FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2020

Financial assets

	<u>Amortized cost</u>	<u>FVTPL</u>
Cash and cash equivalents	1,432,381	--
Investments	--	22,670,391
Total assets	<u>1,432,381</u>	<u>22,670,391</u>

Financial liabilities

Management fee payable	48,030	--
Accrued expenses and other liabilities	74,286	--
Total liabilities	<u>122,316</u>	<u>--</u>

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

9. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

31 December 2019

Financial assets

Cash and cash equivalents	1,375,915	--
Investments	--	19,404,063
Dividend receivable	13,948	--
Total assets	<u>1,389,863</u>	<u>19,404,063</u>

Financial liabilities

Management fee payable	35,250	--
Accrued expenses and other liabilities	31,319	--
Fund Board fee payable	2,828	--
Total liabilities	<u>69,397</u>	<u>--</u>

10. FINANCIAL RISK MANAGEMENT

Exposure

Risk management is an integral part of the investment and the operational process. Risk management can be distinguished in financial risk management, operational risk management and independent risk measurement. Financial risk management encompasses all elements of the investment process. A number of risk management systems allow the Fund Manager to notice any deviations from intended positioning and targets. Operational risk management encompasses the four areas of potential losses: processes, systems, people and external events. Risk measurement is an independent function, which is functionally separated from the operational department and portfolio management.

The Fund's overall risk management programme seeks to maximize the returns derived for the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the

Fund's financial performance. The risk management system is an ongoing process of identification, measurement, monitoring and controlling risk.

The Risk Management department is primarily responsible for identifying and controlling risks. The Fund Board supervises the Fund Manager and is ultimately responsible for the overall risk management of the Fund.

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of the Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalization.

Recently, a number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the COVID-19 vaccine such as how long the immunity last, whether vaccine will prevent transmission or not etc.; however, the testing results showed exceptionally high success rates. Hence, the Fund continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time and is closely monitoring its exposures.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

- a) market risk;
- b) credit risk;
- c) liquidity risks; and
- d) operational risk.

Risk management framework

Financial instruments and associated risks

The Fund primarily aims to invest in a diversified portfolio consisting of listed equities in local and GCC equity markets. The nature and extent of the financial instruments outstanding at the statement of financial position date and the risk management policies employed by the Fund are discussed below.

The Portfolio Management Team has been given discretionary authority to manage the assets in line with the Fund's investment objectives. Compliance with the target asset allocations and the composition of the portfolio are monitored by the portfolio management team on a regular basis.

In instances where the portfolio has diverged from target asset allocations, the Fund Manager is obliged to take actions to rebalance the portfolio in line with the established targets and within prescribed limits. 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

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

The Fund's strategy for the management of market risk is driven by the Fund's investment objective as per the Fund's terms and conditions.

The Fund's market risk is managed by the Fund Manager in accordance with the policies and procedures in place. The Fund's market positions are monitored on a daily basis by the portfolio management team.

i) Foreign exchange risk / currency risk

Foreign currency risk arises as the value of future transactions, recognized monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates. The Fund invests in financial instruments and enters into transactions that are denominated in currencies other than its functional currency, primarily in UAE Dirham (AED), Kuwait Dinar (KWD), Qatari Riyal (QAR), and Egyptian Pound (EGP). Consequently, the Fund is exposed to risk that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value or future cash flows of the Fund's financial assets or financial liabilities denominated in currencies other than SAR.

The Fund's currency risk is managed on a timely basis by the Fund Manager in accordance with the policies and procedures in place. The Fund's currency positions and exposures are monitored on a daily basis by the Fund Manager.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Market risk (*continued*)

When the Fund Manager formulates a view on the future direction of foreign exchange rates and the potential impact on the Fund, the Fund Manager factors that into its portfolio allocation decisions. While the Fund has direct exposure to volatility in foreign exchange rates denominated securities, it may also be indirectly affected by the impact of foreign exchange rate changes on the earnings of certain companies in which the Fund invests, even if those companies' securities are denominated in SAR. For that reason, the below sensitivity analysis may not necessarily indicate the total effect on the Fund's net assets (equity) attributable to unitholders of future movements in foreign exchange rates. The table below summarizes the Fund's assets and liabilities, which are denominated in a currency other than the SAR.

Exposure

At the reporting date, the carrying amount of the Fund's net financial assets and financial liabilities held in individual foreign currencies, expressed in SAR and as a percentage of its net assets (equity), were as follows:

<u>Currency</u>	<u>31 December 2020</u>		<u>31 December 2019</u>	
	<u>Amount in SAR</u>	<u>% of net assets (equity)</u>	<u>Amount in SAR</u>	<u>% of net assets (equity)</u>
AED	7,590,538	31.65	3,100,357	14.96
KWD	3,136,029	13.08	2,247,418	10.84
QAR	1,794,563	7.48	637,895	3.08
EGP	1,739,645	7.25	791,078	3.82
	<u>14,260,775</u>	<u>59.46</u>	<u>6,776,748</u>	<u>32.70</u>

Sensitivity analysis

The table below sets out the decrease in net asset (equity) attributable to the Unitholders in case currencies other than the functional currency i.e. AED, KWD, QAR and EGP weaken by 0.50% relative to SAR. The analysis assumes that all other variables, in particular commission rates, remain constant.

Effect in amounts of SAR (decrease)

<u>Currency</u>	<u>31 December 2020</u>	<u>31 December 2019</u>
AED	(38,143)	(15,580)
KWD	(15,759)	(11,294)
QAR	(9,018)	(3,206)
EGP	(8,742)	(3,975)
	<u>(71,662)</u>	<u>(34,055)</u>

Effect in % of net assets (equity) attributable to the Unitholders (decrease)

<u>Currency</u>	<u>31 December 2020</u>	<u>31 December 2019</u>
AED	-0.16%	-0.05%
KWD	-0.07%	-0.02%
QAR	-0.04%	-0.08%
EGP	-0.04%	-0.02%
	<u>-0.31%</u>	<u>-0.17%</u>

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Market risk (*continued*)

Strengthening of currencies other than the functional currency i.e. KWD, AED, EGP and QAR relative to SAR will result in an equal but opposite effect on the net assets (equity) attribute to Unitholders.

ii) Commission rate risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of financial instruments. The Fund is not subject to commission rate risk on its investments.

iii) Other price risk

Other price risk' is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from commission rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer or factors affecting all instruments traded in the market.

'Equity risk' is the risk that the Fund is exposed to the volatility of the fair value of the equity securities it holds. The fair value of individual securities may fluctuate as a result of e.g. company specific news, broad market movements, commission rate risk or foreign currency movements. The Fund Manager continuously monitors the (potential) determinants of the value of the securities held and the total portfolio value. As such, risk management is an integral part of investment management which comprises security selection and portfolio construction. The exposures in various stocks, and economic sectors and country are frequently monitored, measured and managed against the norms which have been defined for those exposures.

The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. The Fund's policy is to manage price risk through diversification and selection of securities within specified limits set by the Fund's terms and conditions. A summary analysis of investments by nature and geography is presented below. All of the Fund's equity investments including units of REIT are publicly traded and overall market position is monitored on a daily basis by the Fund Manager and it is reviewed on quarterly basis by the portfolio management team.

Exposure

The Fund Manager monitors the concentration of risk for equity investments based on counterparties and industries and geographic location. The Fund's equity investments are concentrated in the following counterparties.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Market risk (*continued*)

<u>Name of investee / security</u>	31 December 2020		
	<u>Cost</u>	<u>Fair value</u>	<u>% of fair value to total equity investment</u>
Saudi Arabian Oil Company	1,953,338	1,947,925	8.59
Industries Qatar Company	1,337,794	1,475,782	6.51
Al Rajhi Banking and Investment Corporation	895,006	1,462,064	6.45
Aramex Company	1,174,681	1,438,250	6.34
Human Soft Holding Company	1,131,915	1,404,063	6.19
Emaar Properties PJSC	1,420,268	1,102,255	4.86
ADNOC Distribution	821,356	981,656	4.33
Advanced Petrochemicals Company	553,934	849,694	3.75
Saudi Telecom Company	698,907	835,810	3.69
Saudi Basic Industries Corporation	728,791	724,199	3.19
Saudi Dairy and Foodstuff Company	515,773	723,625	3.19
Dubai Islamic Bank	824,141	714,184	3.15
Jadwa REIT Saudi Fund*	509,435	704,592	3.11
Dr Sulaiman Al Habib Medical Services Group	315,111	677,653	2.99
Emaar Malls Group PJSC	600,238	646,262	2.85
Obour Land for Food Industries	754,735	633,651	2.80
Bupa Arabia For Cooperative Insurance Company	448,631	579,961	2.56
Saudi Research and Marketing Company	600,143	536,548	2.37
Al Mouwasat Medical Services Company	293,320	534,888	2.36
Emaar Development PJSC	570,383	530,188	2.34
Misr Fertilizers Production Company	594,365	528,185	2.33
National Petrochemical Company	384,228	505,899	2.23
Yanbu National Petrochemical Company	280,331	446,533	1.97
National Gypsum Company	350,408	438,284	1.93
Saudi Indian Company for Cooperative Insurance	432,743	418,505	1.85
Viva Kuwait Telecom Company	355,750	385,572	1.70
Cairo Investment and Real Estate	313,477	370,356	1.63
Aldrees Petroleum and Transport Services Company	152,238	313,337	1.38
Jazeera Airways Company KSC	293,605	312,120	1.38
National Company for Learning and Education	113,974	244,870	1.08
Abdullah Al-Othaim Markets Company	62,973	203,480	0.90
Total	19,481,992	22,670,391	100.00

* A Fund managed by the Fund Manager.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Market risk (continued)

Name of investee / security	31 December 2019		
	Cost	Fair value	% of fair value to total equity investment
Al Rajhi Banking and Investment Corporation	1,189,355	1,886,201	9.71
Saudi Arabian Oil Company	1,670,394	1,667,043	8.59
Alujain Corporation	910,205	1,098,540	5.66
The National Shipping Company of Saudi Arabia	710,390	986,360	5.08
Seera Group Holding	736,055	893,213	4.60
Agility Public Warehousing Company KSC	481,936	855,464	4.41
Emaar Properties PJSC	1,238,726	820,441	4.23
Savola Group Company	900,297	809,389	4.17
Bank Aljazira	483,853	681,297	3.51
Jadwa REIT Saudi Fund*	490,673	657,451	3.39
Dubai Islamic Bank	619,658	602,885	3.11
Jazeera Airways Company KSC	396,697	580,002	2.99
Advanced Petrochemical Company	471,493	506,498	2.61
Saudia Dairy and Foodstuff Company	307,238	501,787	2.59
Saudi Airlines Catering Company	448,223	499,916	2.58
National Company for Learning and Education	423,606	498,641	2.57
Aramex Company	496,222	483,935	2.49
Saudi Research and Marketing Company	565,165	471,484	2.43
Aldrees Petroleum and Transport Services Company	203,821	425,750	2.19
Emaar Malls Group PJSC	359,662	360,441	1.86
Gulf Warehousing Company	293,546	321,410	1.66
Al Mouwasat Medical Services Company	256,342	312,136	1.61
Leejam Sports Company	197,496	308,018	1.59
Almarai Company	315,416	290,615	1.50
Emaar Development PJSC	275,039	288,689	1.49
Saudi Industrial Investment Group	260,080	288,192	1.49
Obour Land for Food Industries	460,578	278,354	1.43
BUPA Arabia For Cooperative Insurance Company	222,572	255,283	1.32
Human Soft Holding Company	234,146	215,659	1.11
Mabanee Company SAKC	197,292	213,031	1.10
ADNOC Distribution	209,193	209,471	1.08
Maharah Human Resources Company	164,910	205,779	1.06
Abdullah Al-Othaim Markets Company	93,376	200,246	1.03
United Wire Factories Company	184,669	183,721	0.95
Cleopatra Hospital Company	13,737	183,218	0.94
Abu Dhabi Islamic Bank	115,750	148,208	0.76
Mezzan Holding Company KSCC	117,649	117,672	0.61
Raya Contact Center SAE	315,223	97,623	0.50
Total	17,030,683	19,404,063	100.00

* A Fund managed by the Fund Manager.

The Fund also manages its exposure to price risk by analyzing the investment portfolio by economic sector. The Fund's policy is to concentrate the investment portfolio in sectors where the Fund Manager believes the Fund can maximize the returns derived for the level of risk to which the Fund is exposed. The table below is a summary of the significant economic sector concentrations within the equity securities portfolio.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Market risk (*continued*)

31 December 2020			
<u>Economic sectors</u>	Cost	Fair value	% of fair value to total equity investment
Materials	4,229,851	4,968,576	21.92
Energy	2,926,932	3,242,918	14.30
Real estate management and development	2,590,889	2,278,705	10.05
Banks	1,719,147	2,176,248	9.60
Educational Services	1,445,392	1,774,419	7.83
Transportation	1,468,286	1,750,370	7.72
Telecommunication services	1,054,657	1,221,382	5.39
Health care equipment and services	608,431	1,212,541	5.35
Insurance	881,374	998,466	4.40
Consumer services	868,709	878,521	3.88
Food and beverages	515,773	723,625	3.19
Real estate investment trusts	509,435	704,592	3.10
Media	600,143	536,548	2.37
Food and staples retailing	62,973	203,480	0.90
Total	19,481,992	22,670,391	100.00

31 December 2019			
<u>Economic sectors</u>	Cost	Fair value	% of fair value to total equity investment
Banks	2,408,616	3,318,591	17.10
Energy	2,793,798	3,288,624	16.95
Consumer services	2,228,930	2,417,308	12.46
Materials	1,826,447	2,076,951	10.70
Transportation	1,374,855	1,919,401	9.89
Real estate management and development	2,070,719	1,682,602	8.67
Food and staples retailing	993,673	1,009,635	5.20
Food and beverages	622,654	792,402	4.08
Commercial and professional services	613,133	705,695	3.64
Real estate investment trusts	490,673	657,451	3.39
Health care equipment and services	270,079	495,354	2.55
Media	565,165	471,484	2.43
Insurance	222,572	255,283	1.32
Educational Services	234,146	215,659	1.11
Technology Services	315,223	97,623	0.51
Total	17,030,683	19,404,063	100.00

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Market risk (*continued*)

The Fund's equity investments are concentrated in the following geographical locations:

31 December 2020			
<u>Country of domicile</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of fair value to total investment</u>
Kingdom of Saudi Arabia	9,289,284	12,147,867	53.5
United Arab Emirates	5,411,067	5,412,795	23.9
Kuwait	1,781,270	2,101,755	9.3
Arab Republic of Egypt	1,662,577	1,532,192	6.8
State of Qatar	1,337,794	1,475,782	6.5
Total	19,481,992	22,670,391	100.00

31 December 2019			
<u>Country of domicile</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of fair value to total investment</u>
Kingdom of Saudi Arabia	11,205,627	13,627,560	65.8
United Arab Emirates	3,314,252	2,914,071	19.5
Kuwait	1,427,720	1,981,828	8.4
Arab Republic of Egypt	789,538	559,194	4.6
State of Qatar	293,546	321,410	1.7
Total	17,030,683	19,404,063	100.00

The table below summarizes the sensitivity of the Fund's net assets (equity) attributable to the Unitholders to equity price movements as at 31 December. The analysis is based on the assumptions that the relevant index decreased by 1% (31 December 2019: 1%), with all other variables held constant, and that the fair value of the Fund's equity investments moved according to their historical correlation with the relevant index. This represents management's best estimate of a reasonable possible shift in the relevant index, having regard to the historical volatility of the relevant index. The impact below arises from the reasonable possible change in the fair value of equities.

	<u>31 December 2020</u>		<u>31 December 2019</u>	
	%	SAR	%	SAR
Effect on net assets (equity) attributable to the Unitholders				
Investments	(0.82)	(196,567)	(0.61)	(126,102)

A strengthening in the relevant index of 1% at reporting date would have resulted in an equal but opposite effect to the amounts shown above.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It arises principally from cash and cash equivalents and dividend receivable. For risk management reporting purposes, the Fund considers and aggregates all elements of credit risk exposure such as individual obligor default risk, counter party risk and sector risk etc. The Fund's policy over credit risk is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the certain credit standards.

The Fund's credit risk is monitored on a regular basis by portfolio management team to ensure it is in line with the investment guidelines of the Fund.

The Fund's activities may give rise to settlement risk. "Settlement risk" is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For almost all of the transactions, the Fund mitigates this risk by conducting settlements through a regulated stock exchange to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

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

	31 December 2020	31 December 2019
Cash and cash equivalents	1,432,381	1,375,915
Dividend receivable	--	13,948
	1,432,381	1,389,863

Analysis of credit quality

The Fund's cash and cash equivalents are held mainly with a custodian held under an omnibus account with a local bank having sound credit rating. Cash and cash equivalents also include balances due to be received against sales transactions awaiting settlement. Credit risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of regulated stock exchange used.

The Fund has not offset any financial asset and financial liability in the statement of financial position. The Fund does not have enforceable master netting or similar arrangement that covers similar financial instruments.

Allowance for impairment

The Fund does not have any impairment of financial assets, so no impairment allowance is provided in these financial statements.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

‘Liquidity risk’ is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

The Fund’s policy and the Fund Manager’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of units, without incurring unacceptable losses or risking damage to the Fund’s reputation.

The Fund’s terms and conditions provide for subscription and redemption of units on every Saudi business day and it is, therefore, exposed to the liquidity risk of meeting the 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.

The Fund’s investments in listed securities are considered to be readily realizable because they are actively traded on GCC stock exchanges.

The Fund manages its liquidity risk by investing predominantly in securities which are expected to be liquidated within short period of time.

(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.

The primary responsibility for the development and implementation of control over operational risks rests with the Risk Management Team. This responsibility is supported by the development of overall standard for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- documentation of controls and procedures
- requirements for
 - appropriate segregation of duties between various functions, roles and responsibilities;
 - reconciliation and monitoring of transactions; and
 - periodic assessment of operational risks faced,
- the adequacy of controls and procedures to address the risks identified;
- compliance with regulatory and other legal requirements;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance if this is effective.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

11. FAIR VALUE MEASUREMENT

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Fund calculates fair values of equity securities that are actively traded on approved stock exchanges at their last reported prices. To the extent that equity securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of their fair value hierarchy, hence the Fund's assets recorded at fair value have been categorized based on fair value hierarchy Level 1.

Carrying amounts and fair value

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position. All fair value measurements below are recurring.

	31 December 2020				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets at fair value</u>					
Investments	22,670,391	22,670,391	--	--	22,670,391
	31 December 2019				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets at fair value</u>					
Investments	19,404,063	19,404,063	--	--	19,404,063

For the years ended 31 December 2020 and 2019, there were no transfers between levels.

For financial assets and liabilities carried at amortized cost, their carrying values are a reasonable approximation of fair value.

JADWA ARAB MARKETS EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Amounts in Saudi Arabian Riyals)

12. EVENTS AFTER THE END OF THE REPORTING PERIOD

There is no event subsequent to the statement of financial position date which require adjustments of or disclosure in the financial statement or notes thereto.

13. LAST VALUATION DAY

The Fund's units are valued every business day and unit price is announced on the following business day. The last valuation day for the purpose of preparation of these financial statements was 31 December 2020 (2019: 31 December 2019).

14. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorized for issue by the Fund Manager on 18 Sha'ban 1442H (corresponding to 31 March 2021).