MUSCAT CAPITAL GCC DIVIDEND GROWTH FUND

(Open-Ended Fund)

(MANAGED BY MUSCAT CAPITAL)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 AND INDEPENDENT AUDITOR'S REPORT

MUSCAT CAPITAL GCC DIVIDEND GROWTH FUND
(Open-ended fund)
(MANAGED BY MUSCAT CAPITAL)
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Ibrahim Ahmed Al-Bassam & Co
Certified Public Accountants - Al-Bassam & Co.
(member firm of PKF International)

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS
MUSCAT CAPITAL GCC DIVIDEND GROWTH FUND
(MANAGED BY MUSCAT CAPITAL)
RIYADH, KINGDOM OF SAUDI ARABIA

Opinion

We have audited the financial statements of Muscat Capital GCC Dividend Growth Fund ("the Fund"), being managed by Muscat Capital (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2020 and statement of comprehensive income / (loss), statement of changes in net assets (equity) and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements 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 endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") 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 Fund's financial statements, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA and the Fund's Terms and Condition, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS
MUSCAT CAPITAL GCC DIVIDEND GROWTH FUND
(MANAGED BY MUSCAT CAPITAL)
RIYADH, KINGDOM OF SAUDI ARABIA

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

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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.

For Al-Bassam & Co.

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

26 Shaban 1442H
08 April 2021G

Al-Bassam & Co.
Certified Public Accountants
C.R. 1010385804

MUSCAT CAPITAL GCC DIVIDEND GROWTH FUND

(Open-ended fund)
(MANAGED BY MUSCAT CAPITAL)

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(Amounts in Saudi Riyals)

	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	6, 9	**1,133,420**	2,650,751
Investments carried at fair value through profit or loss (FVTPL)	7	**70,194,096**	50,430,102
Prepayments and other assets		**16,115**	-
Total assets		**71,343,631**	53,080,853
LIABILITIES			
Accrued management fee	9	**305,493**	202,039
Other accrued expenses	9	**32,369**	27,805
Total liabilities		**337,862**	229,844
Net assets (equity) attributable to the unitholders		**71,005,769**	52,851,009
Units in issue (in numbers)	8	**6,410,918**	5,286,574
Net asset value per unit		**11.08**	10.00

The accompanying notes 1 to 16 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME / (LOSS)
For the year ended 31 December 2020
(Amounts in Saudi Riyals)

	Note	For the year ended 31 December 2020	For the period from 21 April 2019 (Date of commencement) to 31 December 2019
Income			
Dividend income		**1,904,825**	805,816
Realized and unrealized gain / (loss) on FVTPL investments			
- Realized gain / (loss) on disposal of FVTPL investments		**1,511,858**	(2,929,560)
- Unrealized gain on FVTPL investments	7	**5,082,210**	2,779,135
Foreign currency exchange loss		**(142,638)**	(33,576)
		8,356,255	621,815
Expenses			
Management fees	9	**1,003,706**	555,133
Other expenses	9	**252,914**	195,292
		1,256,620	750,425
Net income / (loss) for the year / period		**7,099,635**	(128,610)
Other comprehensive income		**-**	-
Total comprehensive income / (loss) for the year / period		**7,099,635**	(128,610)

MUSCAT CAPITAL GCC DIVIDEND GROWTH FUND
(Open-ended fund)
(MANAGED BY MUSCAT CAPITAL)

STATEMENT OF CHANGES IN NET ASSETS (EQUITY)
For the year ended 31 December 2020
(Amounts in Saudi Riyals)

	For the year ended 31 December 2020	For the period from 21 April 2019 (Date of commencement) to 31 December 2019
Balance at the beginning of the year / period	**52,851,009**	-
Total comprehensive Income / (loss) for the year / period	**7,099,635**	(128,610)
Changes from unit transactions		
Proceeds from issuance of units	**11,759,030**	60,210,081
Payment towards units redeemed	**(116,483)**	(7,230,462)
Net change from unit transactions	**11,642,547**	52,979,619
Dividend paid (Note 12)	**(587,422)**	-
Net assets (equity) attributable to the unitholders at the end of the year / period	**71,005,769**	52,851,009

The accompanying notes 1 to 16 form an integral part of these financial statements.

MUSCAT CAPITAL GCC DIVIDEND GROWTH FUND
(Open-ended fund)
(MANAGED BY MUSCAT CAPITAL)

STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(Amounts in Saudi Riyals)

	Note	For the year ended 31 December 2020	For the period from 21 April 2019 (Date of commencement) to 31 December 2019
Cash flows from operating activities:			
Net income / loss for the year / period		**7,099,635**	(128,610)
Adjustments for:			
- Unrealized gain on FVTPL investments	7	**(5,082,210)**	(2,779,135)
		2,017,425	(2,907,745)
Net changes in operating assets and liabilities:			
Investments carried at FVTPL		**(14,681,784)**	(47,650,967)
Prepayments and other assets		**(16,115)**	-
Accrued management fee		**103,454**	202,039
Other accrued expenses		**4,564**	27,805
Net cash used in operating activities		**(12,572,456)**	(50,328,868)
Cash flows from financing activities:			
Proceeds from issuance of units		**11,759,030**	60,210,081
Redemption of the units		**(116,483)**	(7,230,462)
Dividend paid	12	**(587,422)**	-
Net cash generated from financing activities		**11,055,125**	52,979,619
Net change in cash and cash equivalents:		**(1,517,331)**	2,650,751
Cash and cash equivalents at beginning of the year / period	6	**2,650,751**	-
Cash and cash equivalents at end of the year / period	6	**1,133,420**	2,650,751

The accompanying notes 1 to 16 form an integral part of these financial statements.

1. THE FUND AND ITS ACTIVITIES

The Muscat Capital GCC Dividend Growth Fund (the "Fund") is an open-ended mutual fund established and managed through an agreement between Muscat Capital Company - a Saudi Closed Joint Stock Company (the "Fund Manager"), a wholly owned subsidiary of Bank Muscat (SAOG) incorporated in the Sultanate of Oman, and the Fund Investors (the "Unit holders").

The Fund commenced its operations on 16 Sha'ban 1440H (corresponding to 21 April, 2019). The first financial statements for the Fund were prepared from 21 April 2019 to 31 December 2019. Accordingly the comparatives presented in these financial statements are for the short period ended and are not comparable.

In dealing with the unit holders, the Fund Manager considers the Fund as an independent unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund. Furthermore, unit holders are considered to be owners of the assets of the Fund.

The principal investment objective of the Fund is to invest in Sharia-compliant listed equities, IPOs and real estate funds issued and traded in GCC capital markets. The Fund aims to provide dividends and long-term capital appreciation by investing in a portfolio comprising of Shariah-compliant dividend growth stocks, whose dividends have grown over the last two years as a minimum.

Units were offered at a price of SAR 10 per unit, with a minimum initial subscription amount to SAR 1,000.

The following are the basis of fees, charges and other expenses:

Management fees

Payable to the Muscat Capital "Fund Manager" equal to 1.5% of the Fund's Net Asset Value ("NAV"), which is calculated on a daily basis. Management fee is payable on quarterly basis.

Custodian fees

Payable by the Fund to the Riyad Capital Company 'the Custodian', a CMA-licensed Company under license No. 37-07070, at a minimum rate of 0.06% and maximum rate of 0.20% and average rate of 0.13% per annum at Fund's net asset value according to the market in which the securities are held. The fee is calculated daily and paid at the end of each calendar month with a minimum of SR 1,250 per month.

Administrative fees

Payable by the Fund to the Fund Manager equal to 0.06% of the Fund's Net Asset Value ("NAV"), which is calculated on a daily basis and payable on a quarterly basis.

Dealing charges

The Fund shall bear all dealing fees and brokerage commissions incurred for buying and selling of securities.

Other expenses

The Fund shall be responsible for its other administrative, professional, regulatory and operating expenses which include, but not limited to, Auditors, Sharia Committee, Board Members and annual report fees, subject to a cap of SAR 200,000 per annum. This cap does not include the management, custodian, dealing charges, administrative and any other leverage related fees.

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the "Regulations") issued by Capital Market Authority (CMA) 3 Dhul Hijja 1427H (corresponding to 24 December 2006) which was amended on 16 Shaban 1437 (corresponding to 23 May 2016) detailing requirements for all funds within the Kingdom of Saudi Arabia. The amended regulation came into effect from 6 Safar 1438 H (corresponding to 6 November 2016). Also see (Note 13).

3. SUBSCRIPTION/ REDEMPTION

The Fund is open for dealing before 12:00 pm on Monday and Wednesday (each day a "Dealing Day"). The net asset value of the Fund is determined on each working day's closing prices (each "Valuation Day"). The unit price is calculated by subtracting the liabilities from the total assets value, then dividing the result (NAV) by the number of units outstanding on a valuation day.

4. BASIS OF PREPARATION

4.1 Statement of compliance

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 endorsed by the Saudi Organisation for Chartered and Professional Accountants ("SOCPA").

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 liquidity.

4.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for investments carried at fair value through profit and loss (FVTPL).

4.3 Significant accounting estimates and judgements

The preparation of the financial statements requires management to make 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 accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In the process of applying the Fund's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

4.3.1 Going concern

The Fund's management has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Fund's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

4.3.2 Expected credit loss

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

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

4. BASIS OF PREPARATION

4.3 Significant accounting estimates and judgements

4.3.2 Expected credit loss

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

4.4 Functional and presentation currency

Items included in the 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 Saudi Arabian Riyal ("SAR") which is the Fund's functional and presentation currency.

4.4.1 Foreign currency transactions and balances

Foreign currency transactions are translated into SAR using the exchange rates prevailing at the date of transactions. Foreign currency assets and liabilities are translated into SAR using the exchange rates prevailing at the statement of financial position date. Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income / (loss).

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are as follows:

New standards, amendments to standards and interpretations

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

(Amounts in Saudi Riyals)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments to standards and interpretations (continued)

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

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 1 and IAS 8	Definition of material	January 1, 2020	The amendments provided a new definition of material and clarified that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements.
IFRS 3	Definition of business	January 1, 2020	The amendment clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.
Revised Conceptual Framework for Financial Reporting	Amendments to references Conceptual Framework in IFRS Standards and updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.	January 1, 2020	The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	January 1, 2020	A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.
IFRS 16	COVID-19-Related Rent Concessions	June 1, 2020	The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment applies to annual reporting periods beginning on or after 1 June 2020 and earlier application is permitted.

(Amounts in Saudi Riyals)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(Amounts in Saudi Riyals)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022	The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Additionally, the amendments also clarify the meaning of 'testing whether an asset is functioning properly'.
IFRS 3	Reference to the Conceptual Framework	January 1, 2022	The amendment as a whole updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework.
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023	The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of a liability would not impact its classification
Amendment to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary.

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

5.1 Cash and cash equivalents

Cash and cash equivalents consist of bank balances with the financial institutions. Cash and cash equivalents are carried at amortized cost within the statement of financial position.

5.2 Financial Instruments

5.2.1 Measurement methods

Initial recognition and measurement

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.2 Financial Instruments (continued)

5.2.1 Measurement methods (continued)

Initial recognition and measurement (continued)

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income / (loss). Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost, as described in Note 4.3.2, which results in an accounting loss being recognized in the statement of comprehensive income / (loss) when an asset is newly originated.

5.2.2 Classification and measurement of financial assets

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 fair value through profit or loss ("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.

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 principal 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 measure at FVTPL.

The Fund classifies its financial assets either as subsequently measured at amortized cost or measured at fair value through profit or loss.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Financial instruments (continued)

5.2.2 Classification and measurement of financial assets (continued)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability form the issuer's perspective,

Classification and subsequent measurement of debt instruments depend on:

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

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

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit (SPPP), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 4.3.2. Profit earned from these financial assets is recognized in the statement of comprehensive income / (loss) using the effective profit rate method.

Fair value through other comprehensive income (FVOCI): If debt instrument's is held within a business model whose objective is achieved by collecting SPPP and to selling financial assets then it is measured at FVOCI. A gain or loss on a debt investment measured at FVOCI is recognized in the other comprehensive income in the period in which it arises. Profit earned from these financial assets is recognized in the other comprehensive income using the effective profit rate method.

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.2 Financial Instruments (continued)

5.2.2 Classification and measurement of financial assets (continued)

Debt instruments (continued)

SPPI: 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.

Equity instruments

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

The Fund classifies its financial assets at fair value through profit or loss (FVTPL). The Fund subsequently measures all equity investments at fair value through profit or loss, except where the Fund Manager has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Fund's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to trade. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to the statement of comprehensive income / (loss), including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in the statement of comprehensive income / (loss) when the Fund's right to receive payments is established.

5.2.3 Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized where the rights to receive cash flows from the asset have expired, or the Fund has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Fund has:
(a) Transferred substantially all of the risks and rewards of the asset or
(b) Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Fund's continuing involvement in the asset. In that case, the Fund also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained. The Fund derecognize a financial liability when the obligation under the liability is discharged, cancelled or expired.

5.2.4 Impairment of financial assets

The Fund recognizes loss allowances for ECLs on financial assets measured at amortized cost and debt investments measured at FVOCI.

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk (i.e., the risk of default occurring over the expected life of the asset) has not increased significantly since initial recognition.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Financial instruments (continued)

5.2.4 Impairment of financial assets (continued)

Significant increase in credit risk
When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and informed credit assessment and including forward-looking information.

The Fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. One of the key quantitative indicators used by the Fund is the relative downgrade of the internal rating of the borrower and thereby the consequent change in the PD.

5.2.5 Financial liabilities

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

5.2.5.1 Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income / (loss).

5.2.6. Trade date accounting

A regular way purchases and sales of financial assets are recognized / derecognized on the trade date (i.e., the date that the fund commits to purchase or sell the assets). Regular way purchases or sales are purchase or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the marketplace.

5.2.7. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

5.3 Receivables

Receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using effective commission method. Loss allowance for receivables is always measured at an amount equal to lifetime expected credit losses.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4 Redeemable Units

Redeemable units are classified as equity instruments when:

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

In addition to the redeemable units having all of the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognized net assets (equity) or the change in the fair value of the recognized and unrecognized net assets (equity) of the Fund
- The effect of substantially restricting or fixing the residual return to the redeemable shareholders

The Fund continuously assesses the classification of the redeemable units. If the redeemable units cease to have all the features, or meet all the conditions set out, to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognized in equity. If the redeemable units subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions.
- No gain or loss is recognized in the statement of comprehensive income / (loss) on the purchase, issuance or cancellation of the Fund's own equity instruments.

5.5 Accrued expenses

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

5.6 Provisions

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

5.7 Taxation/zakat

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

(Amounts in Saudi Riyals)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.8 Net gain or loss on financial assets and liabilities at Fair Value through Profit or Loss ("FVTPL")

Net gains or losses on financial assets and liabilities at FVTPL are changes in the fair value of financial assets held for trading or designated upon initial recognition as at FVTPL and exclude interest and dividend income and expenses.

Unrealized gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of the prior period's unrealized gains and losses for financial instruments which were realized in the reporting period. Realized gains and losses on disposals of financial instruments classified as at FVTPL are calculated using the weighted average cost method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

5.9 Dividend income

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

5.10 Transaction costs

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognized in statement of comprehensive income / (loss) or loss as an expense.

5.11 Net assets value

The net assets value per unit disclosed in the financial statements is calculated by dividing the net assets of the Fund by the number of units in issue at the year-end.

6 CASH AND CASH EQUIVALENTS

	Notes	31 December 2020	31 December 2019
Balances with financial institution	6.1, 9	**1,133,420**	2,650,751
Total		**1,133,420**	2,650,751

6.1 Cash balances are held in investment account with Riyad Capital (the "Custodian"). The Fund does not earn profit on this account.

7 INVESTMENTS CARRIED AT FVTPL

	31 December 2020		31 December 2019	
	Cost	Market value	Cost	Market value
Equity investments (Note 11.1a)	**65,111,886**	**70,194,096**	47,650,967	50,430,102

(Amounts in Saudi Riyals)

7 INVESTMENTS CARRIED AT FVTPL (continued)

Industry sector	**31 December 2020**		
	Cost	**Market value**	**%**
Banks and financial services	**19,243,504**	**20,745,529**	**30%**
Cement	**11,297,824**	**12,179,660**	**17%**
Retail	**7,978,433**	**8,601,179**	**12%**
Telecom and IT	**6,837,081**	**7,370,740**	**11%**
Petrochemicals	**6,396,431**	**6,895,696**	**10%**
Transport	**5,021,653**	**5,413,611**	**8%**
Real estate	**4,174,515**	**4,500,351**	**6%**
Building and construction	**2,246,956**	**2,422,330**	**3%**
Energy and utilities	**1,915,489**	**2,065,000**	**3%**
	65,111,886	**70,194,096**	**100%**

Industry sector	31 December 2019		
	Cost	Market value	%
Banks and financial services	21,085,711	22,344,747	44%
Retail	7,000,132	7,106,922	14%
Cement	3,116,892	3,399,281	7%
Transport	1,959,651	2,189,927	4%
Real estate	1,720,650	2,035,347	4%
Telecom and IT	2,218,551	1,988,580	4%
Foods	1,453,770	1,899,326	4%
Electricity	1,603,597	1,827,746	3%
Consumer services	1,414,620	1,622,000	3%
Petrochemicals	1,686,231	1,543,947	3%
Health care	1,236,992	1,320,000	3%
Insurance	1,286,860	1,285,120	3%
Agriculture and food industry	1,135,868	1,061,487	2%
Energy and utilities	731,442	805,672	2%
	47,650,967	50,430,102	100%

8 UNIT TRANSACTIONS

Transactions in units for the year are summarized as follows:

	31 December 2020	**31 December 2019**
Units at the beginning of the year	**5,286,574**	**-**
Units issued	**1,136,144**	6,051,939
Units redeemed	**(11,800)**	(765,365)
Net changes in units	**1,124,344**	5,286,574
Units at the end of the year	**6,410,918**	5,286,574

(Amounts in Saudi Riyals)

9 RELATED PARTY TRANSACTIONS AND BALANCES

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 considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The significant related party transactions entered into by the Fund during the year are as follows:

Related party	Nature of relationship	Nature of transaction	31 December 2020	31 December 2019
Muscat Capital Company	Fund manager	- Management fee (see Note 1)	**1,003,706**	555,133
		- Administration fee (see Note 1)	**36,356**	22,205
Riyad Capital	Affiliate	- Custodian fee (see Note 1)	**87,974**	50,127
Board members		- Board meeting fee	**20,000**	20,000

The balances resulting from related party transactions are as follows:

Related party	Nature of relationship	Nature of transaction	Note	31 December 2020	31 December 2019
Muscat Capital Company	Fund manager	- Management fee		**(305,493)**	(202,039)
		- Administration fee *		**(10,087)**	(8,081)
Riyad Capital	Affiliate	- Custodian fee **		**2,465**	(2,986)
		- Balances with financial institution	6	**1,133,420**	2,650,751
Board members		- Board meeting fee *		**(5,000)**	(15,000)

* These balances have been recorded under other accrued expenses.
** These balances have been recorded under prepayments and other assets.

10 FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2020	**FVTPL**	**Amortized cost**
Assets as per statement of financial position		
Cash and cash equivalents	-	**1,133,420**
Investment carried at FVTPL	**70,194,096**	-
Prepayments and other assets	-	**16,115**
Total	**70,194,096**	**1,149,535**

31 December 2019	**FVTPL**	**Amortized cost**
Assets as per statement of financial position		
Cash and cash equivalents	-	2,650,751
Investment carried at FVTPL	50,430,102	-
Total	50,430,102	2,650,751

All financial liabilities as at 31 December 2020 and 31 December 2019 are classified as financial liabilities measured at amortized cost category.

(Amounts in Saudi Riyals)

11 FINANCIAL RISK MANAGEMENT

11.1 Financial risk factors

The objective of the Funds is to continue to provide optimum returns to its unitholders. The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and operational risk.

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

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

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

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

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in foreign currency.

Fund's financial assets carried at fair value through profit or loss were in the following currencies:

Currency	Country	31 December 2020 %	31 December 2020 Fair value
SAR	Kingdom of Saudi Arabia	71%	49,998,418
AED	United Arab Emirates	22%	15,303,264
KWD	Kuwait	5%	3,524,910
OMR	Sultanate of Oman	2%	1,367,504
		100%	70,194,096

Currency	Country	31 December 2019 %	31 December 2019 Fair value
SAR	Kingdom of Saudi Arabia	62%	31,067,220
AED	United Arab Emirates	21%	10,569,127
KWD	Kuwait	14%	6,966,009
OMR	Sultanate of Oman	3%	1,827,746
		100%	50,430,102

(ii) Commission rate risk

Commission rate risk is the risk that the value of the future cash flows of a financial instrument or fair values of fixed coupon financial instruments will fluctuate due to changes in market commission rates.

The Fund does not have significant cash flow commission rate risk as it does not have any significant amount of variable rate financial instruments.

(Amounts in Saudi Riyals)

11 FINANCIAL RISK MANAGEMENT (continued)

11.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Commission rate risk (continued)

The Fund is not exposed to fair value commission rate risk as the financial instruments of the Fund are carried at amortized cost other than investment carried at fair value through profit and loss which does not have commission rate risk.

(iii) Price risk

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

The Fund has exposure to equity instruments' price risk as the Fund holds such investments.

The price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds. The Fund closely monitors the price movement of its listed financial instruments. The Fund manages this risk through diversification of its investment portfolio in terms of geographical distribution, as disclosed in the table in foreign exchange risk above and industry concentration as follows:

The effect on the net assets value (equity) (as a result of the change in the fair value of investments as at 31 December 2020 and 31 December 2019) due to a reasonably possible change in equity indices based on the industry concentration, with all other variables held constants is as follows

	31 December 2020	
	Potential reasonable change %	Effect on NAV
Banks and financial services	**+/- 1%**	**+/- 207,455**
Cement	**+/- 1%**	**+/- 121,797**
Retail	**+/- 1%**	**+/- 86,012**
Telecom and IT	**+/- 1%**	**+/- 73,707**
Petrochemicals	**+/- 1%**	**+/- 68,957**
Transport	**+/- 1%**	**+/- 54,136**
Real estate	**+/- 1%**	**+/- 45,004**
Building and construction	**+/- 1%**	**+/- 24,223**
Energy and utilities	**+/- 1%**	**+/- 20,650**

(Amounts in Saudi Riyals)

11 FINANCIAL RISK MANAGEMENT (continued)

11.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Price risk (continued)

	31 December 2019	
	Potential reasonable change %	Effect on NAV
Banks and financial services	+/ - 1%	+/- 223,447
Retail	+/ - 1%	+/- 71,069
Cement	+/ - 1%	+/- 33,993
Transport	+/ - 1%	+/- 21,899
Real estate	+/ - 1%	+/- 20,353
Telecom and IT	+/ - 1%	+/- 19,886
Foods	+/ - 1%	+/- 18,993
Electricity	+/ - 1%	+/- 18,277
Consumer services	+/ - 1%	+/- 16,220
Petrochemicals	+/ - 1%	+/- 15,439
Health care	+/ - 1%	+/- 13,200
Insurance	+/ - 1%	+/- 12,851
Agriculture and food industry	+/ - 1%	+/- 10,615
Energy and utilities	+/ - 1%	+/- 8,057

(b) Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund is exposed to credit risk for its balances with financial institutions.

Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Fund is exposed to credit risk for its balance with financial institutions and prepayments and other assets. The credit quality of the Fund's balances with financial institutions is assessed with reference to external credit ratings.

Expected credit loss measurement

The Fund does not have a formal internal grading mechanism. Credit risks are generally managed on the basis of external credit ratings of counterparties.

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 ('ECL') are recognized and profit is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance).

11 FINANCIAL RISK MANAGEMENT (continued)

11.1 Financial risk factors (continued)

(b) Credit risk (continued)

Expected credit loss measurement (continued)

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 recognized, but profit 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 an entity'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.

Definition of 'Default'

The Fund considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Fund. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default. The Fund considers indicators 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.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Fund for regulatory capital purposes. conditions. To derive PiT PDs, the Fund will annually source macro-economic forecast data for selected variables from appropriate sources.

Probability of Default (PD)

Through the yearly review of investments in debt instruments, the Fund shall draw a yearly transition matrix to compute account-based PD over the one-year horizon for the past 5 years. These PDs will be grouped as per credit ratings. This rating migration shall capture the movement of obligors into default at yearly intervals. An average default rate of the 5 yearly transition matrices provides the through the cycle PDs. IFRS 9 requires the use of a PD that is a 'point-in-time' (PiT PD) estimate reflecting current forecasts of future economic conditions. To derive PiT PDs, the Fund will annually source macro-economic forecast data for selected variables from appropriate sources.

(Amounts in Saudi Riyals)

11 FINANCIAL RISK MANAGEMENT (continued)

11.1 Financial risk factors (continued)

(b) Credit risk (continued)

Loss Given Default (LGD)

Loss given default is defined as the forecasted economic loss in case of default. LGD computation will be based on the Fund's losses on defaulted accounts after the consideration of recovery percentages. IFRS 9 also requires that LGD be estimated in collaboration with the forward-looking valuation of collaterals based on macro-economic factors. LGD computation is independent of the assessment of credit quality and thus applied uniformly across all stages.

For LGD estimation on its non-collateralized portfolio, the Fund shall compute LGD based on actual recoveries on its defaulted portfolio over a period of at least 5 years prior to the assessment date. Exposure at Default (EAD)

Exposure at default is an estimation of the extent that the Fund may be exposed to an obligor in the event of default. 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.

Discount rate

The Fund will compute effective profit rate at a contractual level. If the computation of the effective profit rate (at reporting date) is not feasible, the Fund will use the contractual profit (at reporting date) for discounting purposes.

The Fund Manager has performed an ECL assessment for the financial assets carried at amortised cost. An allowance for impairment over these financial assets was not recognized in these financial statements as the amount was not material.

Credit ratings

The credit quality of the Fund's balances with financial institutions is assessed with reference to external credit ratings.

Rating of Financial Institution	31 December 2020	31 December 2019
Balance with financial institution		
Unrated	**1,133,420**	2,650,751
	1,133,420	2,650,751

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

	Note	31 December 2020	31 December 2019
Cash and cash equivalents	6	**1,133,420**	2,650,751

The management has conducted a review as required under IFRS 9 and based on an assessment, the management believes that there is no need for any significant impairment loss against the carrying value of cash and cash equivalents.

(Amounts in Saudi Riyals)

11 FINANCIAL RISK MANAGEMENT (continued)

11.1 Financial risk factors (continued)

(c) Liquidity risk

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

The Fund's terms and conditions provide for subscription and redemption of units on every Valuation Day and it is, therefore, exposed to the liquidity risk of meeting redemptions at any time. The Fund's securities are considered to be readily realizable and they can be liquidated at any time. However, the Fund Manager has established certain liquidity guidelines for the Fund and monitors liquidity requirements on a regular basis to ensure sufficient funds are available to meet any commitments as they arise, either through new subscriptions, liquidation of the investment portfolio or by obtaining financing from the related parties of the Fund.

The remaining contractual maturities at the reporting date of the Fund's financial liabilities consisting of accrued management fee and other accrued expenses are shown below:

	31 December 2020		
	Less than 1 year	**More than 1 year**	**Total**
Accrued management fee	**305,493**	-	**305,493**
Other accrued expenses	**32,369**	-	**32,369**
TOTAL LIABILITIES	**337,862**	-	**337,862**

	31 December 2019		
	Less than 1 year	**More than 1 year**	**Total**
Accrued management fee	202,039	-	202,039
Other accrued expenses	27,805	-	27,805
TOTAL LIABILITIES	229,844	-	229,844

(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.

11.2 Fair value estimation

The fair value for financial instruments traded in active markets is based on quoted market prices at the close of trading on the financial reporting date. Instruments for which no sales were reported on the valuation day are valued at the most recent bid price.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The carrying value less impairment provision, if any, of financial instrument carried at amortized cost are assumed to approximate their fair values.

- 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.

11 FINANCIAL RISK MANAGEMENT (continued)

11.2 Fair value estimation (continued)

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equity instruments. The Fund does not adjust the quoted price for these instruments.

As of December 31, 2020, the Fund's financial instruments comprise cash and cash equivalent, Investment carried at fair value through profit and loss, prepayments and other assets, accrued management fee and other accrued expenses. Except for Investments carried at fair value through profit or loss, all the financial instruments are measured at amortised cost and their carrying value is a reasonable approximate of fair value. Investments carried at fair value through profit or loss are held in level 1 hierarchy of fair value.

12 DIVIDEND DISTRIBUTION

In accordance, with the approved terms and conditions of the Fund, on 09 August 2020, the Fund's board of directors recommended to distribute dividends with regards to the period ended 30 June 2020 amounting to SR 587,422 to its unitholders.

13 EVENTS AFTER THE END OF THE REPORTING PERIOD

In accordance, with the approved terms and conditions of the Fund, on 10 February 2021, the Fund's board of directors recommended to distribute dividends with regards to the six-month period ended 31 December 2020 amounting to SR 1,426,429 to its unitholders.

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

14 CHANGES IN FUND'S TERMS AND CONDITIONS

There has been no change in the terms and conditions of the Fund during the year ended 31 December 2020.

15 LAST VALUATION DAY

In accordance with the Terms and Conditions of the Fund, the last valuation day of the year was 30 December 2020 (2019: 31 December 2019). There is no material change in the net assets (equity) attributable to each unit of the Fund between last valuation day and its financial year end i.e., 31 December 2020.

16 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Fund's Board on 6 April 2021 (Corresponding to 24 Shaban 1442H).

Signed on behalf of Board of Directors

Authorized Signatory