

**ALJAZIRA SAUDI EQUITIES FUND**  
**An Open-Ended Mutual Fund**  
**(Managed By Aljazira Capital Company)**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**  
**together with the**  
**Independent Auditor's Report to the Unitholders**

**ALJAZIRA SAUDI EQUITIES FUND**  
**(Managed by Aljazira Capital Company)**

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**FINANCIAL STATEMENTS**

**For the year ended 31 December 2019**

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## AUDITOR'S REPORT

**TO THE UNITHOLDERS OF  
ALJAZIRA SAUDI EQUITIES FUND  
RIYADH, KINGDOM OF SAUDI ARABIA**

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the financial statements of **Aljazira Saudi Equities Fund** ("the Fund") being managed by Aljazira Capital Company (the "Fund Manager"), which comprise of the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in net assets (equity) attributable to the unitholders and statement of cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements taken as a whole present fairly, in all material respects, the financial position of the Fund as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the 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 are responsible for overseeing the Fund's financial reporting process.

## AUDITOR'S REPORT

**TO THE UNITHOLDERS OF  
ALJAZIRA SAUDI EQUITIES FUND  
RIYADH, KINGDOM OF SAUDI ARABIA**

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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.

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.

## AUDITOR'S REPORT

**TO THE UNITHOLDERS OF  
ALJAZIRA SAUDI EQUITIES FUND  
RIYADH, KINGDOM OF SAUDI ARABIA**

For and on behalf of  
**Al-Bassam & Co.**  
**Riyadh, Kingdom of Saudi Arabia**

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



**04 May 2020G**  
**Ramadan 11, 1441H**

## ALJAZIRA SAUDI EQUITIES FUND

(Managed by Aljazira Capital Company)

### STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(Amounts in Saudi Riyals)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	5,7	26,643,790	27,929,542
Investments carried at fair value through profit or loss (FVTPL)	6	360,334,892	357,728,942
Prepayments and other receivables		21	-
<b>Total assets</b>		<b>386,978,703</b>	<b>385,658,484</b>
<b><u>LIABILITIES</u></b>			
Management fee payable	7	1,341,466	1,484,277
Accrued expenses and other liabilities	8	189,546	286,187
Payable to unitholders on account of redemptions		5,054,831	145,965
<b>Total liabilities</b>		<b>6,585,843</b>	<b>1,916,429</b>
<b>Net assets (equity) attributable to the unitholders</b>		<b>380,392,860</b>	<b>383,742,055</b>
<b>Units in issue (in numbers)</b>	9	<b>912,966</b>	<b>1,046,975</b>
<b>Net asset value per unit</b>		<b>416.66</b>	<b>366.52</b>

The accompanying notes 1 to 19 form an integral part of these financial statements.

## ALJAZIRA SAUDI EQUITIES FUND

(Managed by Aljazira Capital Company)

### STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
<b><u>Income</u></b>			
Net realized and unrealized gain on Investments carried at FVTPL	10	<b>45,856,365</b>	33,382,806
Dividend income		<b>13,292,950</b>	11,677,241
		<b>59,149,315</b>	45,060,047
<b><u>Expenses</u></b>			
Management and custody fees	7,11	<b>(6,282,190)</b>	(6,572,444)
Other expenses		<b>(140,635)</b>	(134,860)
		<b>(6,422,825)</b>	(6,707,304)
<b>Net profit for the year</b>		<b>52,726,490</b>	38,352,743
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>52,726,490</b>	38,352,743

The accompanying notes 1 to 19 form an integral part of these financial statements.

## ALJAZIRA SAUDI EQUITIES FUND

(Managed by Aljazira Capital Company)

### STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

	2019	2018
Net assets (equity) attributable to the Unitholders at beginning of the year	383,742,055	332,593,091
Total comprehensive income for the year	52,726,490	38,352,743
Changes from unit transactions		
Issuance of units	86,014,277	105,593,066
Redemption of units	(142,089,962)	(92,796,845)
Net changes from unit transactions	(56,075,685)	12,796,221
Net assets (equity) attributable to the Unitholders at end of the year	380,392,860	383,742,055

The accompanying notes 1 to 19 form an integral part of these financial statements.



## ALJAZIRA SAUDI EQUITIES FUND

(Managed by Aljazira Capital Company)

### STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
<b><u>Cash flows from operating activities:</u></b>			
Net income for the year		52,726,490	38,352,743
Adjustments for:			
- Net unrealized gain on financial assets carried at FVTPL	10	<u>(6,814,498)</u>	<u>(20,700,849)</u>
		45,911,992	17,651,894
<b><u>Net changes in operating assets and liabilities:</u></b>			
Investments carried at FVTPL		4,208,548	(6,171,919)
Prepayments and other receivables		(21)	-
Management fee payable		(142,811)	(1,270,699)
Accrued expenses and other liabilities		<u>(96,641)</u>	<u>1,600,325</u>
<b>Net cash generated from operating activities</b>		<b>49,881,067</b>	<b>11,809,601</b>
<b><u>Cash flows from financing activities:</u></b>			
Proceeds from issuance of units		86,014,277	105,593,066
Redemption of units net off payables		<u>(137,181,096)</u>	<u>(93,877,704)</u>
<b>Net cash (used in) / generated from financing activities</b>		<b>(51,166,819)</b>	<b>11,715,362</b>
<b>Net change in cash and cash equivalents:</b>		<b>(1,285,752)</b>	<b>23,524,963</b>
Cash and cash equivalents at beginning of the year	5	<u>27,929,542</u>	<u>4,404,579</u>
<b>Cash and cash equivalents at end of the year</b>	5	<b><u>26,643,790</u></b>	<b><u>27,929,542</u></b>

The accompanying notes 1 to 19 form an integral part of these financial statements.

# **ALJAZIRA SAUDI EQUITIES FUND**

**(Managed by Aljazira Capital Company)**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2019**

**(Amounts in Saudi Riyals)**

### **1 LEGAL STATUS AND PRINCIPAL ACTIVITIES**

Aljazira Saudi Equities Fund (Formerly known as Al Taiyebat Saudi Equities Fund) (the “Fund”) is an open-ended, Saudi Investment fund established and managed through an agreement between Aljazira Capital Company – a Saudi Closed Joint Stock Company (the “Fund Manager”) and the investors (the “unitholders”). The Fund Manager is a wholly owned subsidiary of Bank Aljazira (the “Bank”). The Capital Market Authority (“CMA”) approval to continue issuing units to public was granted vide its letter no 7720/5 dated 12 Muharram 1431H (corresponding to 29 December 2009). The Fund commenced its operations on 4 December 1999

The Fund operates under the terms and conditions contained in its prospectus with the prime objective of providing the investors with the opportunities to invest in Saudi capital market in accordance with the principles of Islamic Shariah. Equity investments by the Fund are restricted to those listed in the Kingdom of Saudi Arabia. The Fund’s net income is re-invested in the Fund, which is reflected in the net assets (equity) attributable to each unit.

The Fund is administered by the Fund Manager. The Fund’s assets are held in the custody of Northern Trust Securities (the “Custodian”).

The Fund is governed by the Investment Fund Regulations (the “Regulations”) published CMA on 3 Dhul Hijja 1427 H (corresponding to 24 December 2006) thereafter amended (the “amended regulation”) on 16 Sha’ban 1437 H (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).

### **2 BASIS OF PREPARATION**

The principal accounting policies applied in the preparation of these financial statements are set out below.

#### **2.1 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 Organization of Certified Public Accountants (“SOCPA”).

#### **2.2 Basis of measurement**

These financial statements have been prepared on a historical cost convention, except for Investments that are carried at fair value.

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.

#### **2.3 Functional and presentation currency**

Items included in these financial statements are measured using the currency of the primary economic environment in which the Fund operates (the “functional currency”). These financial statements are presented in Saudi Arabian Riyal (“SAR”) which is the Fund’s functional and presentation 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.

# **ALJAZIRA SAUDI EQUITIES FUND**

(Managed by Aljazira Capital Company)

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2019**

(Amounts in Saudi Riyals)

### **3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

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

#### **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. Accordingly, the financial statements have been prepared on a going concern basis.

#### **3.2 Expected credit loss**

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

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

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

### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **4.1 Financial instruments**

##### **4.1.1 Initial recognition and measurement**

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

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost, as described in Note 3.2, which results in an accounting loss being recognized in the statement of comprehensive income when an asset is newly originated.

# ALJAZIRA SAUDI EQUITIES FUND

(Managed by Aljazira Capital Company)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 4.1. Financial instruments (Continued)

##### 4.1.2. Classification and measurement of financial assets

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

**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 3.2. Profit earned from these financial assets is recognized in the statement of comprehensive income using the effective profit rate method.

**Fair value through profit or loss (FVTPL):** If financial asset's cash flows do not represent solely SPPP or if it is 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, 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 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.

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

#### 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.

# **ALJAZIRA SAUDI EQUITIES FUND**

(Managed by Aljazira Capital Company)

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **4.1. Financial instruments (Continued)**

##### **4.1.2. Classification and measurement of financial assets (Continued)**

##### **Equity instruments (Continued)**

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

##### **4.1.3. 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 recognized a financial liability when the obligation under the liability is discharged, cancelled or expired.

##### **4.1.4. Financial liabilities**

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

##### **4.1.5. Impairment of financial assets**

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

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

# **ALJAZIRA SAUDI EQUITIES FUND**

**(Managed by Aljazira Capital Company)**

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## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2019**

**(Amounts in Saudi Riyals)**

### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **4.1. Financial instruments (Continued)**

##### **4.1.5. Impairment of financial assets (Continued)**

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

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

Commission revenue on impaired financial assets is recognized using the rate of commission used to discount the future cash flows for the purpose of measuring the impairment loss.

##### **4.1.6. Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

#### **4.2 Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalent consists of bank balances and cash placed with the custodian. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

#### **4.3 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 recognised net assets (equity) or the change in the fair value of the recognised and unrecognised net assets (equity) of the Fund over the life of the instrument.

# **ALJAZIRA SAUDI EQUITIES FUND**

(Managed by Aljazira Capital Company)

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2019**

(Amounts in Saudi Riyals)

### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **4.3 Redeemable Units (Continued)**

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

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

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

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions.

No gain or loss is recognised in the statement of comprehensive income on the purchase, issuance or cancellation of the Fund's own equity instruments.

#### **4.4 Accrued expenses and other liabilities**

Accrued expenses and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective commission rate method.

#### **4.5 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.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of the prior period's unrealised gains and losses for financial instruments which were realised in the reporting period. Realised gains and losses on disposals of financial instruments classified as at 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).

#### **4.6 Dividend income**

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

#### **4.7 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 recognised in profit or loss as an expense.

# **ALJAZIRA SAUDI EQUITIES FUND**

**(Managed by Aljazira Capital Company)**

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## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2019**

**(Amounts in Saudi Riyals)**

### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **4.8 Management fees**

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

#### **4.9 Other expenses**

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

#### **4.10 Zakat**

Zakat is the obligation of the unitholders and is not provided for in the financial statements.

#### **4.11 Net assets value**

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

#### **4.12 Provisions**

Provisions are 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.



## ALJAZIRA SAUDI EQUITIES FUND

(Managed by Aljazira Capital Company)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

#### 5 CASH AND CASH EQUIVALENTS

	Notes	2019	2018
Cash at Bank	5.1,7	3,453,644	1,316,066
Cash with custodian	1	23,190,146	26,613,476
		<b>26,643,790</b>	<b>27,929,542</b>

5.1 Cash balances are held in current accounts with the Bank Aljazira, see Note 1. The Fund does not earn profit on these current accounts.

#### 6 INVESTMENTS CARRIED AT FVTPL

	2019	2018
Equity investments – Cost	332,819,545	337,028,093
Equity investments – Market Value	360,334,892	357,728,942

Investments in equity instruments comprise of the following:

##### Industry sector

2019

	Cost	Market Value	%
Banks	143,643,844	155,888,717	43%
Materials	115,040,418	127,967,942	36%
Telecommunication services	24,569,297	26,566,339	8%
Real estate management & development	15,070,348	13,654,800	4%
Retail	10,778,628	11,782,848	3%
Food & beverages	3,412,752	3,519,401	1%
Insurance	1,577,024	1,422,605	0%
Others	18,727,234	19,532,240	5%
<b>Total</b>	<b>332,819,545</b>	<b>360,334,892</b>	<b>100%</b>

##### Industry sector

2018

	Cost	Market Value	%
Banks	128,227,409	152,493,805	42.63%
Materials	152,660,402	147,861,915	41.33%
Telecommunication services	19,737,666	24,848,607	6.95%
Real estate management & development	1,984,321	2,243,808	0.63%
Retail	11,005,761	11,478,979	3.21%
Food & beverages	11,122,671	9,881,201	2.76%
Insurance	12,289,863	8,920,627	2.49%
<b>Total</b>	<b>337,028,093</b>	<b>357,728,942</b>	<b>100%</b>

## ALJAZIRA SAUDI EQUITIES FUND

(Managed by Aljazira Capital Company)

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(Amounts in Saudi Riyals)

#### 7 RELATED PARTIES TRANSACTIONS AND BALANCES

##### *Management fee and other expenses*

For management services, the Fund pays quarterly, the management fees at an annual rate of 1.50% of the net assets (equity) of the Fund attributable to Unitholders, at each valuation date, as set out in the Fund's terms and conditions.

The Fund Manager recovers from the Fund any other expenses incurred on behalf of the Fund such as board compensation, Shariah supervisory board compensation and other similar charges. These expenses are not expected to exceed an annual rate of 0.25% of the value of Fund's net assets (equity) calculated on daily basis.

##### *Transactions with related parties*

During the year, the Fund entered into the following significant transactions with related parties in the ordinary course of business. These transactions were carried out on the basis of approved terms and conditions of the Fund. All related party transactions are approved by the Fund Board.

Related parties	Nature of relationship	Nature of transaction	2019	2018
Aljazira Capital Company	Fund Manager	Management fee	<b>6,126,594</b>	6,370,583
Fund's Board	Key executive	Board remuneration	<b>16,000</b>	16,000

##### *Balances with related parties*

Related parties	Nature of relationship	Nature of transaction	2019	2018
Aljazira Bank	Affiliate	Bank balances	<b>3,453,644</b>	1,316,066
Aljazira Capital Company	The Fund Manager	Management fee payable	<b>1,341,466</b>	1,484,277
Fund's Board	Key executive	Remuneration payable	<b>16,000</b>	16,000

#### 8 ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2019	2018
VAT payable		<b>68,327</b>	80,513
Custody fee payable		<b>20,530</b>	-
Shariah advisory fees payable		<b>20,001</b>	20,001
Board remuneration payable	7	<b>16,000</b>	16,000
Professional fees		<b>5,327</b>	5,327
Other payables		<b>59,361</b>	164,346
		<b>189,546</b>	286,187

# ALJAZIRA SAUDI EQUITIES FUND

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### 9 UNIT TRANSACTIONS

Transactions in units for the year are summarized as follows:

	<u>2019</u>	<u>2018</u>
	<i>(Unit in numbers)</i>	
Units at beginning of the year	1,046,975	1,013,741
Units issued during the year	210,697	276,969
Units redeemed during the year	(344,706)	(243,735)
Net change in units	(134,009)	33,234
Units at end of the year	<u>912,966</u>	<u>1,046,975</u>

9.1 Certain units of the Fund are subscribed by an affiliate of the Fund Manager and the funds managed and administered by the Fund Manager, the details of which are as follows:

Name of related parties	<u>2019</u>	<u>2018</u>
	<i>(Unit in numbers)</i>	
<b>Affiliate</b>		
Aljazira Takaful Taawuni Company	644,725	683,791
<b>Funds managed by the Fund Manager</b>		
Aljazira Diversified Aggressive Fund	44,154	51,811
Aljazira Diversified Balanced Fund	8,428	14,368
Aljazira Diversified Conservative Fund	2,260	5,994

### 10 NET REALIZED AND UNREALIZED GAIN /(LOSS) FROM INVESTMENTS CARRIED AT FVTPL

	<u>2019</u>	<u>2018</u>
Unrealized gain on revaluation of investments	6,814,498	20,700,849
Realized gain on disposal of investments	39,041,867	12,681,957
	<u>45,856,365</u>	<u>33,382,806</u>

### 11 MANAGEMENT AND CUSTODIAN FEE

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Management fee	7	6,126,594	6,370,583
Custodian fee		155,596	201,861
		<u>6,282,190</u>	<u>6,572,444</u>

## ALJAZIRA SAUDI EQUITIES FUND

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### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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#### 12 FINANCIAL INSTRUMENTS BY CATEGORY

<b>2019</b>	<b>Amortised cost</b>	<b>FVTPL</b>
<b>Assets as per statement of financial position</b>		
Cash and cash equivalents	26,643,790	-
Investments carried at FVTPL	-	360,334,892
Prepayments and other receivables	21	-
<b>Total</b>	<b>26,643,811</b>	<b>360,334,892</b>
<b>2018</b>	<b>Amortised cost</b>	<b>FVTPL</b>
<b>Assets as per statement of financial position</b>		
Cash and cash equivalents	27,929,542	-
Investments carried at FVTPL	-	357,728,942
<b>Total</b>	<b>27,929,542</b>	<b>357,728,942</b>

All financial liabilities as at 31 December 2019 and 31 December 2018 were measured at amortised cost.

#### 13 FINANCIAL RISK MANAGEMENT

##### 13.1 Financial risk factors

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

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

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

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

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

##### (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.

All the financial instruments held by the Fund are in Saudi Riyals and therefore they are not exposed to foreign exchange risk.

# ALJAZIRA SAUDI EQUITIES FUND

(Managed by Aljazira Capital Company)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

### 13 FINANCIAL RISK MANAGEMENT (Continued)

#### 13.1 Financial risk factors (Continued)

##### (a) Market risk (Continued)

##### (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 is not subject to commission rate risk, as it does not have any commission bearing financial instruments.

##### (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 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 investments in financial instruments. As of the statement of financial position date, Fund has equity investments in listed equity securities (Note 6).

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

	2019		2018	
	Potential reasonable change %	Effect on NAV	Potential reasonable change %	Effect on NAV
Banks	+/- 1%	+/- 1,558,887	+/- 1%	+/- 1,524,938
Materials	+/- 1%	+/- 1,279,679	+/- 1%	+/- 1,478,619
Telecommunication Services	+/- 1%	+/- 265,663	+/- 1%	+/- 248,486
Real Estate Management & Development	+/- 1%	+/- 136,548	+/- 1%	+/- 22,438
Retail	+/- 1%	+/- 117,828	+/- 1%	+/- 114,790
Food & Beverages	+/- 1%	+/- 35,194	+/- 1%	+/- 98,812
Insurance	+/- 1%	+/- 14,226	+/- 1%	+/- 89,206
Others	+/- 1%	+/- 195,322	-	-

# ALJAZIRA SAUDI EQUITIES FUND

(Managed by Aljazira Capital Company)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

### 13 FINANCIAL RISK MANAGEMENT (Continued)

#### 13.1 Financial risk factors (Continued)

##### (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.

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 cash and cash equivalents and prepayments and other receivables. Bank balances are placed with custodian; hence the credit risk is minimal. For other assets, credit risk is also low.

##### *Credit ratings*

The credit quality of the Fund's bank balance is assessed with reference to external credit ratings which, in all cases, are above investment-grade rating. The bank balances along with credit ratings are tabulated below:

Rating of Financial Institution	2019	2018
Cash and cash equivalents		
P-2	3,453,644	1,316,066

##### (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 Saudi business day and it is, therefore, exposed to the liquidity risk of meeting unitholder redemptions on these days. The Fund's financial liabilities primarily consist of payables which are expected to be settled within one month from the statement of financial position date.

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

##### (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.

# **ALJAZIRA SAUDI EQUITIES FUND**

**(Managed by Aljazira Capital Company)**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2019**

**(Amounts in Saudi Riyals)**

### **14 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.

The fair value hierarchy has the following levels:

- 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.

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.

Fund classifies all of its financial assets, except for those carried at amortized cost, at fair value as level 1.

### **15 SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE**

A number of new standards and interpretations have been issued but are not yet effective. The Fund intends to adopt all the applicable standards and interpretations when these become effective. The Fund manager has assessed the impact of these new standards and interpretations and believes that none of these would have any effect on the future financial statements of the Fund.

### **16 EVENTS AFTER THE REPORTING DATE**

There has been no significant event after the statement of financial position date, which in the opinion of the management requires recognition or disclosure in the financial statements.

### **17 CHANGES IN FUND'S TERMS AND CONDITIONS**

During the year ended 31 December 2019, there has been no significant changes in terms and conditions of the Fund.

### **18 LAST VALUATION DAY**

The last valuation day of the year was 31 December 2019 (2018: 31 December 2018).

### **19 APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were authorized for issue by the Fund's Board on 28 April 2020G corresponding to 5 Ramadan 1441H.