

**International Trade Finance Fund
(Al Sunbullah - SAR)**

Financial Statements and
Independent Auditor's Report
for the Year Ended December 31, 2019



Independent auditor's report to the unitholders and the Fund Manager of International Trade Finance Fund (Al Sunbullah - SAR)

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of International Trade Finance Fund (Al Sunbullah - SAR) (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 ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at December 31, 2019;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity attributable to unitholders for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Fund in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement issued by SOCPA, and the applicable provisions of the Investment Fund Regulations issued by the Capital Market Authority, and the Fund's terms and conditions and the Information Memorandum, and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



Independent auditor's report to the unitholders and the Fund Manager of International Trade Finance Fund (Al Sunbullah - SAR) (continued)

Auditor's responsibilities for the audit of the financial statements


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

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund Manager's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund Manager.
- Conclude on the appropriateness of Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers


Bader I. Benmohareb
License Number 471

March 31, 2020
(7 Sha'ban 1441H)



International Trade Finance Fund (Al Sunbullah – SAR)

STATEMENT OF FINANCIAL POSITION

As at December 31, 2019 and 2018

	<i>Notes</i>	<i>2019 SR</i>	<i>2018 SR</i>
ASSETS			
Cash at bank	8	364,713,369	144,288,713
Investments measured at amortised cost	4	6,279,268,140	6,599,340,512
TOTAL ASSETS		6,643,981,509	6,743,629,225
LIABILITIES			
Redemptions payable		2,447,255	4,427,498
Management fee payable	5	9,068,642	10,111,974
Other liabilities		461,994	887,254
TOTAL LIABILITIES		11,977,891	15,426,726
EQUITY ATTRIBUTABLE TO UNITHOLDERS		6,632,003,618	6,728,202,499
Units in issue		57,593,454	59,765,050
Per unit value	6	SR 115.15	SR 112.58

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

International Trade Finance Fund (Al Sunbullah – SAR)

STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2019 and 2018

	<i>Notes</i>	2019 <i>SR</i>	2018 <i>SR</i>
INVESTMENT INCOME			
Special commission income		188,327,202	204,610,745
TOTAL INCOME		188,327,202	204,610,745
EXPENSES			
Management fee	5	35,669,934	44,972,823
Others		1,080,989	823,354
Reversal of loss allowance	9	(56,161)	(5,938,188)
TOTAL EXPENSES		36,694,762	39,857,989
NET INCOME FOR THE YEAR		151,632,440	164,752,756
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		151,632,440	164,752,756

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

International Trade Finance Fund (Al Sunbullah – SAR)

STATEMENT OF CASH FLOWS

Year Ended December 31, 2019 and 2018

	<i>Notes</i>	2019 SR	2018 SR
OPERATING ACTIVITIES			
Net income for the year		151,632,440	164,752,756
Adjustment for:			
Reversal of loss allowance	9	(56,161)	(5,938,188)
Changes in operating assets and liabilities:			
Investments measured at amortised cost		(1,485,853,176)	3,405,942,948
Management fee payable		(1,043,332)	(4,175,160)
Other liabilities		(425,260)	685,347
Net cash (used in) / from operating activities		(1,335,745,489)	3,561,267,703
FINANCING ACTIVITIES			
Proceeds from units sold		3,117,749,395	2,515,755,476
Value of units redeemed, net		(3,367,560,959)	(5,700,031,952)
Net cash used in financing activities		(249,811,564)	(3,184,276,476)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(1,585,557,053)	376,991,227
Cash and cash equivalents at the beginning of the year		6,374,887,950	5,997,896,723
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	8	4,789,330,897	6,374,887,950

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

International Trade Finance Fund (Al Sunbullah – SAR)

STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO SHAREHOLDERS

Year Ended December 31, 2019 and 2018

	2019 SR	2018 SR
EQUITY AT THE BEGINNING OF THE YEAR	6,728,202,499	9,743,358,256
Effect of adoption of IFRS – 9	-	(9,503,757)
Restated balance as at January 1	6,728,202,499	9,733,854,499
CHANGES FROM OPERATIONS		
Total comprehensive income for the year	151,632,440	164,752,756
CHANGES FROM UNIT TRANSACTIONS		
Proceeds from units sold	3,117,749,395	2,515,755,476
Value of units redeemed	(3,365,580,716)	(5,686,160,232)
Net change from unit transactions	(247,831,321)	(3,170,404,756)
EQUITY AT THE END OF THE YEAR	6,632,003,618	6,728,202,499

UNIT TRANSACTIONS

Transactions in units for the year are summarised as follows:

	2019 Units	2018 Units
UNITS AT THE BEGINNING OF THE YEAR	59,765,050	88,174,518
Units sold	27,348,155	22,610,318
Units redeemed	(29,519,751)	(51,019,786)
Net change in units	(2,171,596)	(28,409,468)
UNITS AT THE END OF THE YEAR	57,593,454	59,765,050

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

1 GENERAL

International Trade Finance Fund (Al Sunbullah - SAR) (the Fund) is an open-ended investment fund designed for investors seeking long term capital growth. The assets of the Fund are invested in international trade finance transactions. All income is reinvested in the Fund and reflected in the unit price.

The Fund is managed by Samba Capital & Investment Management Company (the Manager), a wholly owned subsidiary of Samba Financial Group (the Bank).

2 REGULATING AUTHORITY

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of preparation

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

Functional and presentation currency

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

Accounting convention

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

3.2 Use of estimates in the preparation of the financial statements

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Foreign currencies

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

3.4 Cash and cash equivalents

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

3.5. Financial instruments

3.5.1 Measurement methods

Initial recognition and measurement

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

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through income statement (FVIS), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVIS are expensed in the statement of comprehensive income. Immediately after initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost, as described in Note 3.5.3, which results in an accounting loss being recognised in the statement of comprehensive income when an asset is newly originated. The financial liabilities are subsequently measured at amortised cost unless it has been designated at FVIS.

3.5.2 Classification and measurement of financial assets

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

Based on these factors, the Fund classifies its debt instruments into the following measurement category:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit (SPPP), and that are not designated at FVIS, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 3.5.3. Profit earned from these financial assets is recognised in the statement of comprehensive income using the effective commission rate method.

The business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund's objective is solely to collect the contractual cash flows from the assets or is to collect both

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVIS. Securities held for trading are held principally for the purpose of selling in the near term and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVIS.

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

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

3.5.3 Impairment of financial assets

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

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

3.5.4 De-recognition of financial instruments

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

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

3.6 Offsetting

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

3.7 Accrued expenses and other payables

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Redeemable units

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

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

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

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

3.9 Zakat and income tax

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

3.10 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when payment is being made. Revenue primarily consists of special commission income which is recognised on an effective yield basis.

3.11 Provisions

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

3.12 Accounting standards issued but not effective

The International Accounting Standard Board (IASB) has issued new standard IFRS 17 'Insurance contracts'. The effective date of IFRS 17 is January 1, 2023. This standard is not considered to have significant impact on the financial statements of the Fund.

4 INVESTMENTS MEASURED AT AMORTISED COST

	<i>December 31, 2019 SR</i>	<i>December 31, 2018 SR</i>
Trade finance investments with the Bank	1,120,994,972	-
Trade finance investments with other banks	4,890,464,236	6,230,599,237
Sukuks and bonds	271,318,340	372,306,844
Gross carrying value	6,282,777,548	6,602,906,081
Loss allowance	(3,509,408)	(3,565,569)
Net carrying value	6,279,268,140	6,599,340,512

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2019

4 INVESTMENTS MEASURED AT AMORTISED COST (CONTINUED)

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

	December 31, 2019 SR	December 31, 2018 SR
Maturity within 3 months	5,676,021,514	6,230,599,237
Maturity within 3 – 12 months	426,079,002	100,816,011
Maturity more than 1 year	180,677,032	271,490,833
	<u>6,282,777,548</u>	<u>6,602,906,081</u>

5 TRANSACTIONS WITH RELATED PARTIES

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

The Fund records management fee payable to the Manager calculated at an annual rate of 0.50% (2018: 0.50%) of the net asset value at each valuation date. The Bank acts as one of the Fund's bankers and cash at bank includes SR 48,348,569 (2018: SR 69,312,722) held with the Bank. Trade finance investments with the Bank are disclosed in note 4. Other expenses for the year include SR 53,738 (2018: SR 56,782) towards the Fund Board remuneration.

6 EFFECT ON EQUITY IF EXPECTED CREDIT LOSSES ARE NOT RECOGNIZED

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

i) Expected credit losses on financial assets as at December 31, 2019 is as set out below:

	December 31, 2019 SR	December 31, 2018 SR
Expected credit losses on financial assets	3,509,408	3,565,569
Units in issue	57,593,454	59,765,050
Per unit share of expected credit losses	<u>0.06</u>	<u>0.06</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2019

6 EFFECT ON EQUITY IF EXPECTED CREDIT LOSSES ARE NOT RECOGNIZED (CONTINUED)

ii) The Equity, after incorporating expected credit losses is set out below:

	December 31, 2019 SR	December 31, 2018 SR
Equity per unit expected credit losses as per these financial statements	115.15	112.58
Per unit share of expected credit losses	0.06	0.06
Equity per unit before expected credit losses	115.21	112.64

7 FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and financial liabilities as at December 31, 2019 and December 31, 2018 were classified under amortised cost category.

8 CASH AND CASH EQUIVALENTS

	December 31, 2019 SR	December 31, 2018 SR
Trade finance investments with an original maturity of three months or less	4,424,617,528	6,230,599,237
Cash at Bank	364,713,369	144,288,713
	4,789,330,897	6,374,887,950

9 RISK MANAGEMENT

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

9.1 Financial risk factors

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

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

(a) Market risk*(i) Special commission rate risk*

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2019

9 RISK MANAGEMENT (CONTINUED)

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

(ii) Currency risk

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

(b) Liquidity risk

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

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

(c) Credit risk

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

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

Expected credit loss measurement

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2019

9 RISK MANAGEMENT (CONTINUED)

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

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

The Fund has set out the following definition of default:

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

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

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

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

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

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

	As at December 31, 2019				As at December 31, 2018
	Stage 1 12-month ECL SR	Stage 2 Lifetime ECL SR	Stage 3 Lifetime ECL SR	Total SR	Total SR
Cash at bank	364,713,369	-	-	364,713,369	144,288,713
Investments measured at amortised cost	6,282,777,548	-	-	6,282,777,548	6,602,906,081
Gross carrying amount	6,647,490,917	-	-	6,647,490,917	6,747,194,794
Loss allowance	(3,509,408)	-	-	(3,509,408)	(3,565,569)
Carrying amount	6,643,981,509	-	-	6,643,981,509	6,743,629,225

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2019

9 RISK MANAGEMENT (CONTINUED)

The movement of loss allowance is as below:

	2019 12 Months ECL SAR	2018 12 Months ECL SAR
Balance as of January 1	3,565,569	-
Effect of adoption of IFRS 9	-	9,503,757
Reversal during the year	(56,161)	(5,938,188)
Closing balance as of December 31	3,509,408	3,565,569

The effect on the loss allowance as at December 31, 2019 due to a 10 basis point change in the probability of default, keeping other parameters constant is SAR 350,941 (December 31, 2018: SAR 356,557).

The Manager reviews credit concentration of the investment portfolio based on counterparties. The credit quality of the financial assets is managed using the external credit ratings of Moody's, S&P and Fitch. As at December 31, 2019 and December 31, 2018, the Fund had investments with credit ratings ranging from AA3 to unrated. The bank balances are held with banks which have investment grade credit rating. The geographical concentration of the investments held at amortised cost is as follows.

	December 31, 2019 SR	December 31, 2018 SR
Saudi Arabia	3,776,837,277	5,103,104,087
United Arab Emirates	2,415,299,021	1,382,161,740
United Kingdom	90,641,250	117,640,254
	6,282,777,548	6,602,906,081

9.2 Capital risk management

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

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

9.3 Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fund uses following hierarchy for determining and disclosing the fair value of financial instruments:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2019

9 RISK MANAGEMENT (CONTINUED)

- Level 3 inputs are unobservable inputs for the asset or liability.

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

10 LAST VALUATION DAY

The last valuation date for the purpose of preparation of these financial statements was December 31, 2019 (2018: December 31, 2018).

11 SUBSEQUENT EVENT

The existence of Coronavirus (COVID-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruption to business and economic activity. The Fund considers this outbreak to be non-adjusting post statement of financial position event. As the situation is fluid and rapidly evolving, management do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Fund. The impact of this outbreak on macroeconomic forecasts will be incorporated into the Funds financial statements in 2020.

12 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund Board on 6 Sha'ban 1441H (corresponding to March 30, 2020).