

**GCC ITHMAR FUND  
MANAGED BY  
ALBILAD INVESTMENT COMPANY  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015  
TOGETHER WITH THE INDEPENDENT AUDITORS'  
REPORT TO THE UNIT HOLDERS**

**GCC ITHMAR FUND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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## INDEPENDENT AUDITORS' REPORT

To the Unit Holders and the Fund Manager of  
GCC Ithmar Fund:

March 29, 2016

### Scope of audit

We have audited the accompanying balance sheet of the GCC Ithmar Fund ("the Fund") managed by AlBilad Investment Company (the "Fund Manager") as of December 31, 2015 and the related statements of income, cash flows and changes in net assets attributable to unit holders for the year then ended, and the notes from (1) to (13) which form an integral part of the financial statements. These financial statements, which were prepared by the Fund's management and presented to us with all information and explanations which we required, are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Unqualified opinion

In our opinion, such financial statements taken as a whole present fairly, in all material respects, the financial position of the Fund as of December 31, 2015 and the results of its operations, cash flows and the changes in its net assets attributable to unit holders for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Fund.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Omar M. Al Sagga', is written over a horizontal line.

By:

Omar M. Al Sagga  
License Number 369

**GCC ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**BALANCE SHEET**  
(All amounts in Saudi Riyals '000' unless otherwise stated)

		<b>As at 31 December</b>	
	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>			
Cash and cash equivalent		<b>2,983</b>	3,056
Dividend receivable		<b>15</b>	-
Investments held for trading	6	<b>25,857</b>	42,310
<b>Total assets</b>		<b>28,855</b>	45,366
<b>LIABILITIES</b>			
Accrued management fee	7	<b>137</b>	231
Accrued expenses		<b>16</b>	27
<b>Total liabilities</b>		<b>153</b>	258
<b>Net assets attributable to unit holders</b>		<b>28,702</b>	45,108
<b>Units in issue (numbers '000)</b>		<b>39,512</b>	51,090
<b>Net assets value – per unit (Saudi Riyals)</b>		<b>0.7264</b>	0.8829

The accompanying notes 1 to 13 form an integral part of these financial statements.

**GCC ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**STATEMENT OF INCOME**  
 (All amounts in Saudi Riyals '000' unless otherwise stated)

		For the year ended 31 December 2015	For the period from 1 June 2014 to 31 December 2014
	Notes		
<b>INCOME</b>			
Dividend income, net	10	1,042	765
Trading losses, net			
- Realised loss on investments		(2,292)	(463)
- Movement in unrealised loss on investments		(3,536)	(5,623)
Exchange loss		-	(163)
Compensation by the Fund Manager for the issuance of units at wrong NAV		-	74
		<u>(4,786)</u>	<u>(5,410)</u>
<b>EXPENSES</b>			
Management fees	5,7	(687)	(592)
Other expenses	5	(63)	(38)
		<u>(750)</u>	<u>(630)</u>
<b>Net loss for the year / period</b>		<u><b>(5,536)</b></u>	<u><b>(6,040)</b></u>

The accompanying notes 1 to 13 form an integral part of these financial statements.

**GCC ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**STATEMENT OF CASH FLOWS**  
(All amounts in Saudi Riyals '000' unless otherwise stated)

	For the year ended 31 December 2015	For the period from 1 June 2014 to 31 December 2014
<b>OPERATING ACTIVITIES</b>		
<b>Net loss for the year / period</b>	<b>(5,536)</b>	<b>(6,040)</b>
<i>Adjustment to reconcile net loss to net cash from / (used in) operating activities</i>		
Movement in unrealised loss on investments held for trading	<b>3,536</b>	5,623
<b>Changes in operating assets and liabilities</b>		
Dividend receivable	<b>(15)</b>	-
Investments held for trading	<b>12,917</b>	(47,933)
Accrued management expenses	<b>(94)</b>	231
Accrued expenses	<b>(11)</b>	27
<b>Net cash generated from / (used in) operating activities</b>	<b>10,797</b>	<b>(48,092)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of units	<b>2,725</b>	69,988
Payment towards units redeemed	<b>(13,164)</b>	(18,840)
Dividend distribution	<b>(431)</b>	-
<b>Net cash (used in) / generated from financing activities</b>	<b>(10,870)</b>	51,148
Net (decrease) / increase in cash and cash equivalents	<b>(73)</b>	3,056
Cash and cash equivalents at beginning of the year / period	<b>3,056</b>	-
<b>Cash and cash equivalents at the end of the year / period</b>	<b>2,983</b>	<b>3,056</b>

The accompanying notes 1 to 13 form an integral part of these financial statements.

**GCC ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS**  
(All amounts in Saudi Riyals '000' unless otherwise stated)

	For the year ended 31 December 2015	For the period from 1 June 2014 to 31 December 2014
<b>Net assets value at beginning of the year / period</b>	45,108	-
<b>Net loss for the year / period</b>	(5,536)	(6,040)
<b>Changes from unit transactions</b>		
Proceeds from issuance of units	2,725	69,988
Payment towards units redeemed	(13,164)	(18,840)
<b>Net change from unit transactions</b>	<b>(10,439)</b>	51,148
<b>Dividend distribution</b>	<b>(431)</b>	-
<b>Net assets value at end of the year / period</b>	<b>28,702</b>	45,108

**UNIT TRANSACTIONS**

(Units in '000)

	For the year ended 31 December 2015	For the period from 1 June 2014 to 31 December 2014
<b>Units at beginning of the year / period</b>	51,090	-
Units issued	2,904	69,630
Units redeemed	(14,482)	(18,540)
<b>Net change in units</b>	<b>(11,578)</b>	51,090
<b>Units at end of the year / period</b>	<b>39,512</b>	51,090

The accompanying notes 1 to 13 form an integral part of these financial statements.

**GCC ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**  
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**1. THE FUND AND ITS ACTIVITIES**

The GCC Ithmar Fund (the "Fund") is an open-ended investment fund, managed by AlBilad Investment Company (the "Fund Manager"), a subsidiary of Bank AlBilad (the "Bank") for the benefit of the Fund's Unit Holders. The Fund's objective is to invest in the long term listed equities of GCC Markets on a global scale in order to earn capital gain. The Fund will distribute dividend upto 5% of its Net Asset Value semi-annually on the last business day of the month of May and November.

The Fund commenced its operations on 1 June 2014 and operated under the regulations issued by Saudi Arabian Monetary Agency (SAMA) until the Capital Market Authority (CMA) pursuant to resolution number 1-219-2006 dated 3 Dhul Hijja 1427H (corresponding to 24 December 2006), issued Investment Funds Regulations detailing regulatory requirements for all funds operating within the Kingdom of Saudi Arabia. The terms and conditions of the Fund were initially approved by SAMA and subsequently endorsed by the CMA on 31 March 2014.

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

**2. REGULATORY AUTHORITY**

The Fund is governed by the Investment Fund Regulations ("the Regulations") published by the Capital Market Authority (CMA) on 22 Dhul Hijja 1427H (corresponding to 12 January 2007) detailing requirements for all funds within the Kingdom of Saudi Arabia.

**3. BASIS OF PREPARATION**

**3.1 Statement of compliance**

These financial statements are prepared in accordance with the generally accepted accounting standards issued by the Saudi Organization of Certified Public Accountants (the "SOCPA").

**3.2 Basis of measurement**

These financial statements have been prepared under the historical cost convention, except for the measurement of investments held for trading at fair value, using the accrual basis of accounting and the going concern concept.

**3.3 Functional and presentation currency**

These financial statements have been presented in Saudi Riyals (SR), which is the functional currency of the Fund. All financial information presented in SR has been rounded to the nearest thousand.

**3.4 Use of estimates and judgment**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. 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 year in which the estimates are revised and future years affected.



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#### **4. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these financial statements which are consistent with those used for the preparation of the financial statements for the period ended December 31, 2014 and are as follows:

##### **4.1 Investments held for trading**

Investments are classified as "held for trading" if they are purchased for the purpose of resale in the short term. Investments held for trading are initially recorded at cost which includes the purchase price plus all expenditures made by the Fund for the purpose of acquiring securities. Subsequent to initial recognition, investments held for trading are measured at fair value and resulting gains or losses are recognised in the statement of income but excluding dividend income which is separately shown in the statement of income. Realised gains or losses at disposal and unrealised gains or losses are determined on average cost basis.

##### **4.2 Trade date accounting**

All regular-way purchases and sales of financial assets are recognized and derecognized on the trade date, i.e. the date that the Fund commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place.

All other financial assets and liabilities are initially recognized on the trade date at which the Fund becomes a party to the contractual provision of the instrument.

##### **4.3 Management fees and other expenses**

Management fees and other expenses are charged at rates/amounts within limits mentioned in the terms and conditions of the Fund. These charges are calculated and accrued on each valuation date.

##### **4.4 Provisions**

Provisions are recognized when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

##### **4.5 Zakat / taxation**

Zakat / taxation is the obligation of the unit holders and is not provided for in these financial statements.

##### **4.6 Dividend income**

Dividend income is recognized when the right to receive the dividend is established.

##### **4.7 Cash and cash equivalents**

Cash and cash equivalents comprise balances held in investment account with Bank AlBilad in a pool of accounts managed by the Fund Manager.

##### **4.8 Subscription and redemption of units**

Units subscribed and redeemed are recorded at the net assets value per unit on the valuation day for which the subscription request and redemption applications are received.

##### **4.9 Net assets value**

The net assets value per unit disclosed in the balance sheet is calculated by dividing the net assets of the Fund by the number of units in issue at the year / period-end.

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**4.10 Foreign currency transactions**

Transactions denominated in foreign currencies are translated into the functional currency of the Fund at the spot exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of the Fund at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the statement of income. Translation gains or losses on non-monetary items carried at fair value are included as part of fair value adjustment in the statement of income.

**4.11 Financial instruments**

Financial assets and liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Any gain or loss on derecognition of financial assets and financial liabilities is taken directly to the statement of income.

**5. MANAGEMENT FEE, ADMINISTRATION AND OTHER CHARGES**

The Fund Manager charges each investor a subscription fee of a percentage not exceeding 1% (2014: 1%) of the subscribed amount to cover administration costs and is netted off against proceeds from issuance of units.

The Fund Manager charges the Fund a management fee at the rate of 1.75% per annum (2014:1.75%) of the Fund's net asset value which is calculated on each valuation date and deducted on quarterly basis.

The Fund Manager also recovers certain expenses incurred on behalf of the Fund within limits mentioned in terms and conditions of the Fund.

The breakup of other expenses are as follows:

	Notes	For the year ended 31 December 2015	For the period from 1 June 2014 to 31 December 2014
Benchmarking		26	-
Professional fees	5.1	23	13
CMA and Tadawul fees		13	13
Other	5.2	1	12
		<b>63</b>	<b>38</b>

**5.1** During the year, the Fund Manager initially calculated a lower Net asset Value (NAV) for the period from 23 July 2015 to 9 December 2015 based on a revised audit fees of SR 30,000 which was not approved by the Capital Market Authority ("CMA") at that date. During December 2015, the Fund Manager recalculated and increased the NAV for the stated period based on audit fees of SR 22,500 as stated in the terms and conditions of the Fund previously approved by the CMA. The Fund Manager appropriately accounted for the minimal resultant difference in the Fund's books and compensated the unit holders and the Fund accordingly in the amounts of SR 79.81 and SR 9.60 respectively, with respect to the units redeemed and subscribed at a lower NAV during the stated period.

**5.2** Other expenses include printing charges amounting to SR 462. These charges are allocated to the Fund by the Fund Manager based on the actual cost of printing.

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**6. INVESTMENTS HELD FOR TRADING**

		For the year ended 31 December 2015	For the period from 1 June 2014 to 31 December 2014
<b>Investments held for trading</b>	<b>Note</b>		
Equities		25,857	32,548
Mutual Funds		-	9,762
	6.1	<b>25,857</b>	42,310
Cost		<b>35,016</b>	47,933
Unrealised loss, net		<b>(9,159)</b>	(5,623)
		<b>25,857</b>	42,310

6.1 The Fund Manager has invested in the following markets:

Description by geographical segment	% of market value		Cost		Market value	
	2015	2014	2015	2014	2015	2014
Saudi Market (including Funds)*	73	80	23,913	36,830	18,916	33,599
Kuwaiti Market	10	8	4,249	4,249	2,627	3,592
United Arab Emirates (Dubai)	9	6	2,694	2,694	2,174	2,715
Qatar Market	8	6	4,160	4,160	2,140	2,404
<b>Total</b>	<b>100</b>	100	<b>35,016</b>	47,933	<b>25,857</b>	42,310

\* The Fund was not in compliance with its terms and conditions as it invested in the Saudi Market at the ratio of 66% of net assets, whereas the terms and conditions limit the investment in a single market to 45% of the net assets.

**7. TRANSACTIONS WITH RELATED PARTIES**

In the ordinary course of its activities, the Fund transacts business with related parties. Related party transactions are in accordance with the terms and conditions of the Fund. All the related party transactions are approved by the Fund Board.

Related parties comprise the Fund Manager, Bank AlBilad (the Parent Company of the Fund Manager) and entities related to Bank AlBilad and the Fund Manager.

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Name of related party	Nature of transaction/balance	Value of transactions during the year / period		Closing balance	
		2015	2014	2015	2014
AlBilad Investment Company	Management fees	687	592	137	231
	Cash and cash equivalents (Investment account balance)	-	-	2,472	1,843
Murabeh Fund	Units purchased	8,500	5,000	-	-
	Closing balance	13,529	-	-	5,023
Ihmar Fund	Units purchased	-	5,233	-	-
	Units redeemed	3,736	-	-	-
	Closing balance	-	-	-	4,739
AlBilad Investment Company	Units purchased	-	5,000	-	-
	Units redeemed	-	-	-	-
	Closing balance	-	-	-	4,415
Ithmar Fund	Investment in Funds	-	-	-	-
	Unit as unit holder	-	560	-	-
	Units redeemed	495	-	-	-
	Closing balance	-	-	-	494

The Fund manager also charges subscription fee to cover administrative costs from the subscribers and is netted-off against the proceeds from issuance of units (note 5).

## 8. SUBSCRIPTION AND REDEMPTION OF UNITS

Units of the Fund are made available for purchase only in the Kingdom of Saudi Arabia at the Bank AlBilad branches by natural and corporate persons. The net asset value of the Fund is determined on every Sunday and Wednesday ("Valuation Day") by dividing the net value of assets (fair value of total assets minus liabilities) by the total number of outstanding units on the relevant Valuation day.

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund's financial assets comprise cash and cash equivalent and investments held for trading and its financial liabilities consist of accrued expenses. Investments held for trading are carried at fair values and with respect to other financial assets and liabilities, management believes that fair values of these instruments are not materially different from their carrying values.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments comprise financial assets and financial liabilities.

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 unit holders.

The Fund manages its investment portfolio and other assets by monitoring the return on net assets and makes adjustments to its investment policy in the light of changes in market conditions. The capital available is dependent upon the issuance and redemption of units.

Asset allocation is determined by the Fund Manager with a view to achieve the investment objectives.

The Fund maintains positions in different financial instruments as dictated by its investment policy. All investments are "held for trading" investments. The Fund is exposed to credit risk, equity price risk, liquidity risk and currency risk.

### 9.1 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.

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The Fund is exposed to credit risk on its cash and cash equivalents which are principally maintained with a related party (note 7) which has a sound credit rating.

The Fund's maximum exposure at the reporting date is represented by respective carrying amounts of the relevant financial assets in the balance sheet.

### **9.2 Equity price risk**

Equity price risk is the risk that the value of financial instruments will fluctuate because of changes in market prices.

The Fund is exposed to equity price risk arising from its investments held for trading portfolio due to investment in quoted equity shares. Equity price risk is managed by diversifying the portfolio. This is achieved by investing in securities in various geographical sectors of the GCC markets (note 6) and continuous monitoring of the equity prices by the Fund Manager.

### **9.3 Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities and payment towards units redeemed. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value.

The Fund's terms and conditions provide for the 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 realisable 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.

### **9.4 Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to change in foreign exchange rates.

All financial assets of the Funds are denominated in various GCC currencies all of which are pegged to the United States Dollar similar to the functional currency Saudi Riyal, except for the Kuwaiti Dinar which is not fully pegged to the United States Dollar. Currency risk is managed through continuous monitoring of exposures.

## **10. INCOME EXCLUDED FROM THE STATEMENT OF INCOME**

As per the agreement between the Fund and Units' Holders in the Fund, income prohibited by Sharia'h, as defined, is excluded from the statement of income and paid to charities. Such amount is determined based on the information available to management upon preparation of these financial statements.

## **11. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the price that is received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments comprise of financial assets and financial liabilities.

The Fund's financial assets comprise cash and cash equivalents and investments held for trading, and its financial liabilities comprise of accrued expenses.

Investments held for trading are carried at fair values. The fair values of other financial instruments are not materially different from their carrying values. Fluctuations in stock market can cause fluctuation in the investment portfolio.

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**12. LAST VALUATION DATE OF THE YEAR / PERIOD**

In accordance with the terms and condition of the Fund, the last valuation day of the year was 30 December 2015 (2014: 31 December 2014).

**13. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements are approved by the Fund Board on 23 March 2016 corresponding to 14 Jumada Al-Thani 1437H.