

**ITHMAR FUND**  
Managed by  
**ALBILAD INVESTMENT COMPANY**

**Financial Statements**  
**For the period from 3 June 2012 to 31 December 2012**  
together with the  
**Independent Auditors' Report to the Unit Holders**



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## INDEPENDENT AUDITORS' REPORT

To: **The Unit Holders**  
**Ithmar Fund**  
**Riyadh**  
**Kingdom of Saudi Arabia**

We have audited the accompanying financial statements of **Ithmar Fund** (the "Fund") managed by **AlBilad Investment Company** (the "Fund Manager") which comprise the balance sheet as at 31 December 2012 and the related statements of income, cash flows and changes in net assets attributable to unit holders for the period from 3 June 2012 to 31 Dec 2012 and the attached notes (1) through (11) which form an integral part of the financial statements.

### *Fund Manager's responsibility for the financial statements*

The Fund Manager is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and for such internal control 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. The Fund Manager has provided us with all the information and explanations that we require relating to our audit of these financial statements.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Fund's preparation and fair presentation of the financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Fund Manager, as well as evaluating the overall presentation of the financial statements.

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



**Opinion**

In our opinion, the financial statements taken as a whole present fairly, in all material respects, the financial position of the Fund as at 31 December 2012 and the results of its operations and cash flows for the period from 3 June 2012 to 31 December 2012 in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Fund.

For KPMG Al Fozan & Al Sadhan

Khalil Ibrahim Al Sedais  
License No.: 371



Date: 23 March 2013

Corresponding to: 11 Jumada I 1434H

**ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**BALANCE SHEET**  
As at 31 December 2012

	<u>Note</u>	<u>SAR 000'</u>
<b>ASSETS</b>		
Cash and cash equivalent		718
Investments held for trading	6	60,815
Dividend receivable		56
<b>Total assets</b>		<u>61,589</u>
<b>LIABILITIES</b>		
Accrued expenses		240
<b>Total liabilities</b>		<u>240</u>
<b>Net assets attributable to unit holders</b>		<u>61,349</u>
<b>Units in issue (numbers '000)</b>		<u>59,604</u>
<b>Net assets value – per unit (Saudi Riyal)</b>		<u>1.0293</u>

The accompanying notes 1 to 11 form an integral part of these financial statements.

**ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**STATEMENT OF INCOME**  
For the period from 3 June 2012 to 31 December 2012

	<u>Note</u>	<u>SAR 000'</u>
<b>INCOME</b>		
Dividend income		917
Trading gain / (loss), net		
- Realised loss on investments		(68)
- Unrealised gain on investments		2,124
		<u>2,973</u>
<b>EXPENSES</b>		
Management fees	5	474
Other expenses	5	25
		<u>499</u>
<b>Net income for the period</b>		<b><u>2,474</u></b>

The accompanying notes 1 to 11 form an integral part of these financial statements.

**ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**STATEMENT OF CASH FLOWS**

For the period from 3 June 2012 to 31 December 2012

	SAR 000'
<b>OPERATING ACTIVITIES</b>	
<b>Net income for the period</b>	<b>2,474</b>
<i>Adjustment to reconcile net income to net cash from operating activities:</i>	
Unrealised gain on investments, net	<u>(2,124)</u>
	<b>350</b>
<b>Changes in operating assets and liabilities</b>	
Investments held for trading, net	<b>(58,691)</b>
Dividend receivable	<b>(56)</b>
Accrued expenses	<u>240</u>
<b>Net cash used in operating activities</b>	<u><b>(58,157)</b></u>
<b>FINANCING ACTIVITIES</b>	
Dividend distribution	<b>(810)</b>
Proceeds from issuance of units	<b>73,175</b>
Payment towards units redeemed	<u><b>(13,490)</b></u>
<b>Net cash from financing activities</b>	<u><b>58,875</b></u>
Net increase in cash and cash equivalent	<b>718</b>
Cash and cash equivalent at beginning of the period	<u>—</u>
<b>Cash and cash equivalent at end of the period</b>	<u><b>718</b></u>

The accompanying notes 1 to 11 form an integral part of these financial statements.

**ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS**  
For the period from 3 June 2012 to 31 December 2012

	<u>SAR 000'</u>
<b>Net assets value at beginning of the period</b>	--
<b>Net income for the period</b>	2,474
<b>Changes from unit transactions</b>	
Proceeds from issuance of units	73,175
Payment towards units redeemed	(13,490)
<b>Net change from unit transactions</b>	59,685
<b>Dividend distribution</b>	(810)
<b>Net assets value at end of the period</b>	61,349
 <b>UNIT TRANSACTIONS</b>	
<i>(Units in '000)</i>	
<b>Units at beginning of the period</b>	--
Units issued	72,832
Units redeemed	(13,228)
<b>Net change in units</b>	59,604
<b>Units at end of the period</b>	59,604

The accompanying notes 1 to 11 form an integral part of these financial statements.

**ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the period from 3 June 2012 to 31 December 2012

**1. THE FUND AND ITS ACTIVITIES**

Ithmar Fund is an open-ended investment fund established and managed by AIBilad Investment Company ("the Fund Manager"), a subsidiary of Bank AIBilad (the "Bank") for the benefit of the Fund's Unit Holders. The objective of the Fund is to achieve capital growth over long term period and provide periodic income. The fund distributes returns on semi-annual basis in the end of May and November of every calendar year. The Fund is managing a diversified portfolio by investing in Shariah compliant shares of companies listed in the Saudi stock exchange. The activities of the Fund conform to the rules and controls set by the Sharia'h Board.

Capital Market Authority (CMA) granted the approval for the establishment of the fund vide its letter 1631/5 dated 21 March 2012. The Fund commenced its operations on 3 June 2012.

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 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 requirements of the generally accepted accounting standards on financial reporting 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 recognised in the year in which the estimates are revised and future years are affected.



**ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 3 June 2012 to 31 December 2012

**4. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these financial statements are set out below:

**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 the 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 are 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 asset and liabilities (including assets and liabilities designated at fair value through income statement) are initially recognized on 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 terms and conditions of the Fund. These charges are calculated and accrued on each valuation day.

**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 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 of balances held in bank and investment account with an original maturity of three months or less, which are available to the Fund without any restriction.

**4.8 Subscription and redemption of units**

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

**4.9 Net asset value**

The net asset 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 period-end.

**ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the period from 3 June 2012 to 31 December 2012  
(Saudi Riyals 000')

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**4.10 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 de-recognition 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% of the subscribed amount to cover administration costs and is netted off against proceeds from issuance of units.

Fund Manager charges the Fund, a management fee at the rate of 1.5% per annum of the Fund's net asset value which is calculated and deducted on each valuation day.

The Fund Manager also recovers certain expenses incurred on behalf of the Fund within limits mentioned in terms and conditions of the Fund. The Fund Manager has waived fees towards certain expenses of the Fund relating to the current period.

**6. INVESTMENTS HELD FOR TRADING**

<b>Investments held for trading</b>	<b>Notes</b>	<b>2012</b>
Equities – Quoted	6.1	59,808
Mutual funds	6.2	<u>1,007</u>
		<u>60,815</u>

**6.1** Investment in mutual funds represents investments in units of Al Murabeh fund (open ended fund) managed by AlBilad Investment Company. The primary activity of Al Murabeh fund is to invest in Shari'ah compliant Murabaha contracts (note 7).

**6.2** The Fund Manager has invested in the following sectors

<b>Description by industry segment</b>	<b>% of market value</b>	<b>Cost</b>	<b>Market value</b>
<b>31 December 2012</b>			
Petrochemical	24	14,434	14,810
Cement	15	9,167	9,239
Telecommunication	16	8,681	9,869
Banks & financial services	10	6,714	6,029
Agriculture & food	11	6,311	6,905
Retail	5	3,100	3,231
Industrial investment	4	2,287	2,325
Transport	4	2,215	2,387
Building and construction	4	2,028	2,187
Energy and utilities	4	2,193	2,265
Hotel and tourism	1	557	561
Mutual funds	2	1,004	1,007
<b>Total investment</b>	<b>100</b>	<b>58,691</b>	<b>60,815</b>

**ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the period from 3 June 2012 to 31 December 2012  
*(Saudi Riyals 000')*

**6. INVESTMENTS HELD FOR TRADING (continued)**

	<b>2012</b>
Cost	58,691
Unrealised gain, net	2,124
	<b>60,815</b>

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

<u>Name of related party</u>	<u>Nature of transaction/balance</u>	<u>Value of transactions during the period</u> <u>2012</u>	<u>Closing balance</u> <u>2012</u>
AlBilad Investment Company	Management fees	474	223
	Other expenses	10	10
	Cash and cash equivalents (investment account balance)	--	718
Murabeh Fund	Units purchased	5,368	--
	Units redeemed	4,363	--
	Closing balance	--	1,007

**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"). The net asset value of the Fund for the purpose of purchase or sale of units is determined 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 consist of cash and cash equivalent and held for trading investments and its financial liabilities consist of accrued expenses. Investments 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.

**ITHMAR FUND**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the period from 3 June 2012 to 31 December 2012  
(Saudi Riyals 000')

**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

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 for achieving 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 a 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 cash and cash equivalents which are maintained with a related party (note 7) that has sound credit ratings. 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 that are listed in the Saudi stock exchange. Equity price risk is managed by diversifying the portfolio. This is achieved by investing in securities in various sectors of market (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 a financial instrument will fluctuate due to a change in foreign exchange rates. All the financial instruments of the Fund are denominated in Saudi Riyals and hence, not exposed to currency risk.

**10. LAST VALUATION DATE OF THE PERIOD**

The last valuation date of the period was 30 December 2012.

**11. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements are approved by the Fund Board on 23 March 2013 corresponding to 11 Jumada I 1434 H.